

# SATURDAY NIGHT

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## THE FRONT PAGE

A CONSIDERABLE portion of this issue of SATURDAY NIGHT is devoted to an examination of the organization and operations of the Canadian banking system, from the point of view, not of its attractiveness to the bank shareholders, but of its usefulness to the business community and the public generally. The studies contained in this section have been made by members of our own staff and well known contributors, who have had the assistance of economists both inside and outside of the banking profession. They are the results of a critical examination of banking operations in Canada which, in the case of some of us, has extended over the last ten to twenty years.

It is our considered and earnestly held opinion that, unless Canada is to go completely Socialistic, the continuance of the present privately owned, privately operated and competitive system of distributing short-term credit (which is the essential function of banking), on terms which will maintain the full confidence of those who are the original authors of that credit, namely the depositors, is a prime requisite for economic recovery and progress.

Changes in the banking system which will neither impair this confidence nor weaken any of the guarantees of sound management and adequate debt collection facilities upon which it is based will not be seriously opposed by anybody. But most of the proposals for the alteration of the existing system, and most of the criticisms of the system which lead to such proposals, are made without the slightest realization of the extreme sensitiveness of that delicate plant so carefully nourished and strengthened by long years of constantly improving bank legislation and bank policies. The public confidence in the banks as absolutely safe repositories of over two billion dollars of the people's funds,

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### NEED FOR KNOWLEDGE

IN TIMES such as these the electors are rather easily induced to ascribe their economic difficulties, which are plentiful and distressing, to almost any institution or practice which they do not fully understand. The only reliable safeguard for the banking business against legislative proposals which would undermine the public confidence in the banks is a more widespread understanding of at least the fundamental principles by which banking is carried on. We believe that in this group of articles our readers will find those principles set forth somewhat more clearly and interestingly than in the average textbook, to say nothing of the average article written for financial experts. We hope that they will help our readers to realize that the loans, which are only possible so long as those two billions and over remain on deposit, are the very lifeblood of the current operations of Canadian industry and commerce; that the continuance of the loans depends absolutely upon the continued confidence of the depositors in the safety of their deposits; and that the impairment of that confidence would paralyze industry and commerce to an extent far beyond anything we have yet experienced.

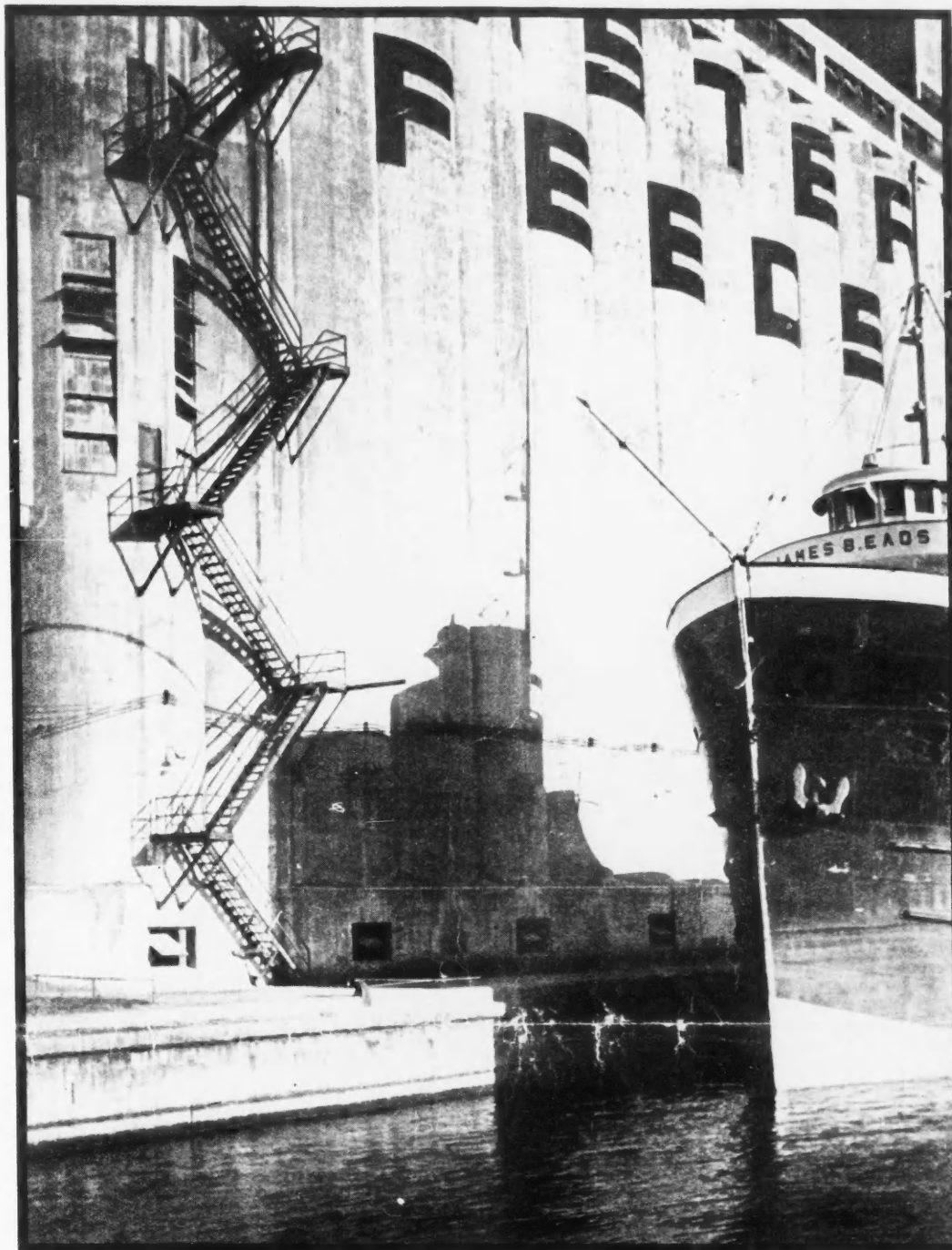
The terrible decline in *international* business is largely the direct result of the breakdown of confidence as between creditors in one country and debtors, or rather, would-be debtors, in another. Domestic business in Canada, while badly handicapped by the decline in international business, has suffered little from diminished confidence in internal credit relations, and none at all from any decline of confidence in the banking system. There is no danger of any such decline, if we continue to be as cautious, careful and common-sense a nation as we have been in the past.

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### MR. DODDS' ADDRESS

AT THE time when we embarked upon the preparation of this study of Canadian banking, we were not aware that the presidential address delivered last week by the retiring President of the Canadian Bankers' Association, Mr. Jackson Dodds, would depart from the conventional lines of that annual pronouncement and be devoted almost entirely to "an effort to answer some of the critics of the policies which the banks have adopted for the protection of the public." Our belief that a better understanding of the nature of banking is urgently needed in Canada has thus received confirmation from a very important source.

Mr. Dodds, whose address will also be found in another part of this issue, deals succinctly and effectively with what are substantially the same criticisms that we have sought to repel at greater length. He deals forcibly with the creation of credit theory, and cites the conclusion of the London Economist, coincident with and stated in much the same language as our own, that "what has happened" (when loans and deposits have both expanded) "is that the bank has mobilized wealth. . . . The bank has not 'created' deposits; at the most it has converted illiquid wealth into liquid deposits." The further complaint that "banks withhold credit unreasonably" is also answered with equal cogency. He is wise, we think, in admitting that "bank employees are human" and that occasional mistakes are made by some members of a body of men which totals 25,000 in number and carries on its work in over three thousand branches and sub-agencies in Canada and many abroad. One thing, however, which evokes our own admiration but which Mr. Dodds could not



TAKING CARGO. A halfway stage in the great grain movement from Prairie fields to British breakfast tables, which is financed from the Prairie siding to the ocean port and perhaps beyond by Canadian bank credit, as explained in Section IV of this issue. Saturday Night staff photograph.

perhaps mention without indiscretion is the remarkable efficiency of the organization by which most, perhaps all, of the Canadian banks educate their men in the actual processes of banking, and the constant and perspicacious scrutiny with which they select the ablest members for the posts of greatest difficulty. That the ability to avoid making losses is the chief objective in both training and selection does not seem to us at all regrettable; we could indeed wish that the administrators of our governmental funds could be subjected to something like the same process.

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### A MODERATE TARIFF

THE intermediate tariff has always been recognized as a proper tariff to be applied to any country which exhibits a reasonable willingness to apply a moderate tariff against Canada. The United States, as a result of the Roosevelt-King Agreement, has become such a country, and it is perfectly logical that the intermediate tariff—which is far from being a Tariff for Revenue Only—should now be applied to it. There may be there doubtless are some discrepancies as between unfinished goods and unassembled parts on the one hand and finished or assembled

goods on the other, which it should not be hard to straighten out; and our heart certainly bleeds for the automotive industry which, to oblige the American and not the Canadian government, has just put forward its new-models campaign by several months in order to "spread out" employment and promptly finds its Canadian business hung up by a tariff which does not go into effect until January. But these are temporary and remediable evils, and the general results of the Agreement look like being permanent and substantial benefits.

The chief important exception to the intermediate tariff treatment of American imports to Canada is the abolition *in toto* of the duty on American magazines. If this was, as we presume a *sine qua non* of the American acceptance of the Agreement we are not disposed to cavil at it, although we regret it. Our feeling is that it is a high price, but not too high a price, to pay for a fifty per cent cut in a long and important list of American tariff items on Canadian primary goods. Nevertheless we continue to believe that the peculiar position of Canada alongside of a nation twelve times its size renders it desirable that the growth of national periodicals reflecting the national spirit should be fostered by all

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## THE PASSING SHOW

BY HAL FRANK

THE National Party in Great Britain is no longer really national. The only important groups left in it are the Conservatives and the Astors.

The Italians have insisted all along that they are not making war on Ethiopia and events so far seem to justify their claim.

Business is getting better so that there will probably be no talk of ploughing under every third Santa Claus.

An English critic claims that Canadian fiction lacks imagination. Naturally he wouldn't get around to examining our expense accounts.

The Orient seems bent on slavishly imitating the Occident. Another crisis looms between Japan and China.

The danger spots in the world at the present time are the Mediterranean, Shanghai, and Father Coughlin's study.

Perhaps the reason why people are going to fortune-tellers so much is because they want more definite information than they can get out of the economic experts.

What happens when an irresistible force meets an immovable body? But first, of course, it has to be decided if the League is really an irresistible force.

Mr. King is implementing his election pledge to reduce tariffs but we understand that certain industries wish he wouldn't use agricultural implements to do it.

The mosquitoes and the black flies have long departed but we still have to face the pest who says he doesn't want anything for Christmas.

Esther says that she read the report of the tariff reductions between the United States and Canada and she says it must be really very good because she couldn't make head nor tail of it.

## NEWS FROM THE CITY

BY FRANCES CARD

Dear Aunt Georgina:

THANKS for fixing over my evening dress which arrived here safely. I wore it last night.

You were asking me how my poems went at the Club. Well, you'll weep for me when I tell you what happened. I meant to read "My Horse and I," and I had put it into my portfolio along with the one by Sir Wilfred Harding, called "A Morning's Ride," which I had typed out so that I could compare the two.

You know that Sir Wilfred is over here from England, and was asked to be the guest of honor at the Poetry Club last night. Well, I got there late, and had to sit at the back of the hall. The lady chairman was just announcing that Sir Wilfred had not yet arrived, and she feared that he must have lost his way, or have become ill.

On this, a murmur of disappointment went through the audience, and then the chairman suggested that the best thing might be to carry on a discussion of Sir Wilfred's work by themselves. She asked those members who had brought poems of their own to read, to please get that over first, so that they could proceed with the rest of the meeting.

WHEN it came to my turn to read, I got stage-fright, and wished I had never come. I grabbed the paper from my portfolio, and dashed up on to the platform, trembling with nervousness.

Well, Aunt Georgie, you'd hardly believe it, but I got through reading the title and the first line before I realized that it wasn't my own poem, but

### PREMONITION

BY HELEN SANGSTER

WHEN every milkman slinks along  
On furtive rubber heels,  
His horse with rubber likewise shod,  
His cart with rubber wheels;

When radios are quiet long,  
Ere sounds the midnight chime,  
And would-be singers raise no song,  
Since night-noise is a crime;

When silent through the city night  
The automobiles creep,  
I'll lie awake and wonder why  
I cannot get to sleep!

Sir Wilfred's, which I had grabbed up in my haste. Honestly, I didn't know what to do. It seemed so silly to stop then, so I read on to the end, trusting to my lucky stars that no one present knew the poem. I tried muddling the words.

When I had finished, everyone clapped, and the chairman came up beside me, with the kindest smile, and said that it was a very nice little attempt for a beginner. It was always a pleasure to the members, she said, to encourage young writers like me.

IT WAS on the tip of my tongue to tell them of my mistake, but the chairman went on talking, and the more she said about the poem's "minor imperfections," and "fresh young point of view," the harder it became for me to explain. So I didn't say anything, and when I came down from the platform I could feel my face on fire.

There was a man seated at the end of my row, who must have been a late-comer, too. When I took my place, he leaned over and said to me, "That was a very good poem."

He seemed such a nice, gentle little man, and had such twinkly eyes, that I suddenly confided in him about my dreadful mistake. To my relief, he thought it a good joke, and chuckled so much that the woman sitting in front turned round and gave us a look which made us both feel that we were in the wrong place.

BY THIS time, someone had just finished reading one of Sir Wilfred's poems called, "You." The chairman came forward and said that this was a love poem of exquisite delicacy of perception, and then she voiced the opinion that she was uncertain whether the last line had a touch of cynicism in it or not.

Several people expressed their belief that it did have a good deal of cynicism in it. To my surprise, the little man sitting next to me stood up, as boldly as you please, and said in a nice clear voice, that the poem meant exactly what it said, and had no subtlety in it at all.

I did think him brave to stand up and speak out like that before everybody, and so did the woman sitting in front of us, for she turned round and stared very hard.

THE chairman let him finish, and then she smiled at him, and said that the members were always interested in having everyone's opinion, but that he was mistaken about the meaning of the poem. He was, perhaps judging it a little superficially. She advised him to make a more complete study of Sir Wilfred's works, and that he would then understand them better.

The little man wasn't a bit embarrassed. His eyes twinkled more than ever, and he said, "Madam Chairman is mistaken, I am already one of Sir Wilfred's greatest admirers, and I am sure that I can cast some light on this poem."

The chairman looked at him rather sternly, and asked, "Are you a member, Mr. . . . er . . . ?"

"Wilfred Harding," said the little man, helpfully.



# THE BRITISH ELECTION

BY J. A. STEVENSON

AT THE general election held on November 14 the voters of Great Britain ran true to form and once more revealed how sound and sane their political instincts and judgments are. They would not risk radical changes in their economic organization and the conduct of their foreign policy in the midst of a serious international crisis, but they served plain notice upon the National Government, which Mr. Stanley Baldwin now heads, that they expected it to tread progressive paths and live up to the ideals which it professed.

They declined to turn out an administration which against a series of tragic failures in the realm of foreign policy could set a very creditable record of accomplishment in the domestic field and which, having taken the warning of the "Peace Ballot" to heart, had at last bestirred itself earnestly and vigorously to uphold the League of Nations and the principle of collective security.

It is true that the new Parliament is far from representative of popular opinion, as the Government, polling roughly 11½ million votes or 53½% of the total, gets about 440 seats out of 615, or 71½%, and the Opposition, polling 47% of the vote, only gets 175, or 29% of the seats. But the Labor party has benefited in the past and will do so again from the vagaries of an electoral system which is out

ACCORDINGLY the Government could make a considerable appeal to the gratitude of the voters; but it might have availed them nothing if they had not had the timely sense to push the unhappy Ramsay MacDonald out of the Premiership a few months ago and replace him by Stanley Baldwin. Mr. Baldwin is not a statesman of meteoric intellect or arresting personality to be ranked with Gladstone or Disraeli; rather will he take his place in British history beside Walpole and Peel as an honest and high-minded public servant, who embodies in himself most of the typical British virtues and, while naturally conservative in his instincts, is never afraid to sponsor reforms as soon as he is convinced of their need. He is passionately devoted to the Conservative party, but he also has the ingrained conviction that it is failing hopelessly in its appointed mission when it fails to be zealous for social and economic reforms and for the amelioration of the lot firstly of the inhabitants of Great Britain and secondly of the world at large.

THE Government now reinstalled in office draws its voting power in the House of Commons predominantly from the Conservative party, as has every administration during fourteen out of the seventeen years that have elapsed since the war. But the program which was set forth in its election manifesto must have shocked old-fashioned Tories and would have made the average Gladstonian Liberal shudder at its radicalism.

It affirmed fidelity to the League of Nations and the twin causes of peace and disarmament. It promised a restoration of international trade, further efforts for the revival of agriculture, the extension on a voluntary basis of contributory pensions to blacked-out workers and other persons outside the present arrangements, the regularization of Unemployment Assistance schemes, the overhaul of the obnoxious Means Test, the raising of the school-leaving age to fifteen, and plans to improve the general health of the nation. Ministers also pledged themselves to carry on vigorously the campaign now launched against slums and overcrowding, to deal with the problem of mining royalties, and to insist that the obscurantist and obdurate mine-owners reorganize the operating end of their industry and work out improved selling arrangements.

They had also evidently realized that their cavalier neglect of the depressed areas was a heavy count against them, and so the Government's manifesto promised that "financial considerations will not be allowed to stand in the way of any practicable and reasonable scheme" for their succor, that "ready-made factories" will be provided on a "trade estate," and that workers in these areas who cannot be absorbed locally will be trained and transferred to other districts.

BUT the international situation, and particularly the Italo-Ethiopian imbroglio, will claim the first attention of the Government, and it evidently does not expect any early easement of the present strain, as both Mr. Baldwin and Mr. Neville Chamberlain went out of their way during the campaign to issue a warning that an even more serious crisis might be expected early in 1936. There have been suggestions abroad that as soon as the National Ministry was safely reinstalled in office it would be ready to make an Imperialist deal with Italy and give Mussolini virtual control over Ethiopia provided British interests in the territory round Lake Tsana, one of the source reservoirs of the Nile, were safeguarded, and the government-controlled press of Italy has been trying to encourage the idea of such a bargain. But thousands of non-Conservatives probably had no other reason for voting for the Baldwin Government than their conviction that it was in earnest in its efforts to checkmate Mussolini's Imperialist designs and should be backed up in such a praiseworthy, if belated, move to enforce the Covenant of the League for the restraint of a wanton violator of it. Not only would Mr. Anthony Eden and some other Ministers almost certainly resign if any such deal were made with Mussolini, but the Government would deal a heavy blow to its own prestige and would forfeit irrevocably the confidence of a large body of voters who supported it with some misgivings last week. So it can be expected that the Government, while stopping short of military sanctions, will stand fast for the enforcement of economic and financial sanctions against Italy.

The problem of Hitler and his ambitions is another dark cloud upon the horizon, and the next few

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THEY DIDN'T AND THEY DID

of 1935, and revealed the results. In the election of 1929, for example, the Laborites profited greatly by their policy of abstention from the presence of a strong opposition since they split the anti-socialist vote but at the same time the candidates of Labor, although reduced in number to 151, succeeded to the advantage of the Government in such contests and enabled them to carry about forty seats with a minority vote. But a Government which has a popular plurality of 1½ million votes and a majority of over 250 in the House of Commons can justifiably claim to have a clear mandate for its policies.

ALL THE tactical advantages in the election campaign went with the Government. They timed their appeal for a new mandate with Machiavellian skill, and their candidates were able to exploit successfully for their own benefit the most clear-cut mark-of-station of unity among all parties in support of a national policy in foreign affairs that has been witnessed since the Great War ended. They could find the Laborites desirable to enhance the nation's safety by electing to provide adequate armaments in a world armed to the teeth and containing a group of restless ambitious dictators. And they could link as they did very skillfully, their program of rearmament with professions of ardent zeal for the principle of a collective security and with arguments that the main objective of rearmament was to enforce the powers of the League of Nations and promote the cause of peace. Moreover, the armament program with its promise of shipbuilding and other activities beneficial to the depressed "heavies" industry was a most effective, practical electioneering ploy in various localities, and enabled the Government to both ingratiate itself with the workingmen, who were weary of the economic depression, and to attract the support of the industrialists, who had been led before and seemed a few months ago to have a good chance of no competition.

AGAIN the Ministerialists could fairly claim that their domestic policies, such as their establishment of a general tariff system and their refusal to experiment with currency and credit after the devaluation of the pound, had played a large part in restoring business confidence and creating a favorable environment for a trade revival backed by cheap money and for a gigantic War Loan Campaign which had reduced the burden of debt obligations. They could point out that since the National Government assumed office in 1931 a million additional workers had been provided with employment, that the price of Consols had risen from 99½ to 84, and that many companies which had been headed for bankruptcy had been brought back to a dividends-paying basis. And they had a special piece of luck in the trade returns for October, which revealed a remarkable advance and were the best for the whole year.

Again they could claim that a courageous effort had been made to solve the problem of relations with India, that the prestige of Great Britain in the councils of the world had been rehabilitated, and that at a time when parliamentary institutions were falling into disrepute all over Europe on account of their inefficiency, the democratic system in Britain under the guidance of the National Government had proven equal to the task of bringing the country through the worst depression of modern times to a state of reasonable prosperity.



NATIONAL PARTY ELECTION POSTERS. (MR. BALDWIN'S GOT A JOB, TOO.)

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reasonable means; and we earnestly hope that Canadian periodicals other than newspapers (which enjoy a natural protection through the local nature of their subject-matter) will be relieved of all the handicaps under which they at present suffer, and against which even the moderate protection afforded them in recent years has only partially counter-acted.

### THE QUEBEC ELECTIONS

THERE is no change in the political atmosphere of Canada which we should welcome more gladly than one which would make it possible for the French-speaking population of Quebec to vote for a Conservative candidate without feeling that they were being traitors to their race. We are quite convinced that they are wrong in that feeling, that indeed the interests of their race would be much better served if they held themselves free to transfer their allegiance from one side to the other, as most of their fellow-citizens do, in accordance with their views upon the performance or promises of the party leaders. But the feeling exists and is very powerful; and the mere fact that there is little hope of support from French constituencies in Quebec has a natural tendency to cause the Conservative party to cater somewhat more carefully to sections and groups from which better results may be anticipated. The rise of a really great Conservative statesman might eventually put an end to this condition, which has existed ever since the early days of Sir Wilfrid Laurier (and can surely no longer be attributed merely to the fact that that great Liberal statesman was himself a French-Canadian). But until that far-off divine event occurs, about the best that the Conservatives can hope for from Quebec is some temporary assistance from elements which are so disgusted with the current policies of Liberalism that they are willing to do anything, short of actually joining the Conservative party, to put a check to them.

### TOO MUCH IMPREGNABILITY

IN THE federal sphere an alternation of government is possible without any alternation of popular opinion in the Province of Quebec, which is fortunate for the party system of government. But in the Province itself no such alternation of governments has been possible in almost forty years. That the administration of the Province has remained efficient and energetic under these circumstances is a matter of congratulation, and also a ground for sincere admiration of the talents of Premier Taschereau. That it has remained an accurate re-

flection of the real opinion of the Province is too much to believe. A situation in which no alternative government is available is not one in which the electors can impose their views upon the government which exists.

The election now pending in that Province presents the usual phenomenon of a not very powerful Conservative army carrying on desultory field operations against the entrenched Taschereau forces, and hoping that something may happen as the result of the attacks of another army, totally distinct and unallied, consisting of disgruntled former followers of the Liberal banner. There is no reason to expect that the result will be in any way different from that of several similar campaigns in the past. When it is possible for Quebec French-Canadians who dislike the policies of the provincial Liberal party to vote Conservative, there will be a prospect of genuine two-party democracy again functioning in the Province, but the time is not yet.

### MR. KING'S NEXT AMBITION

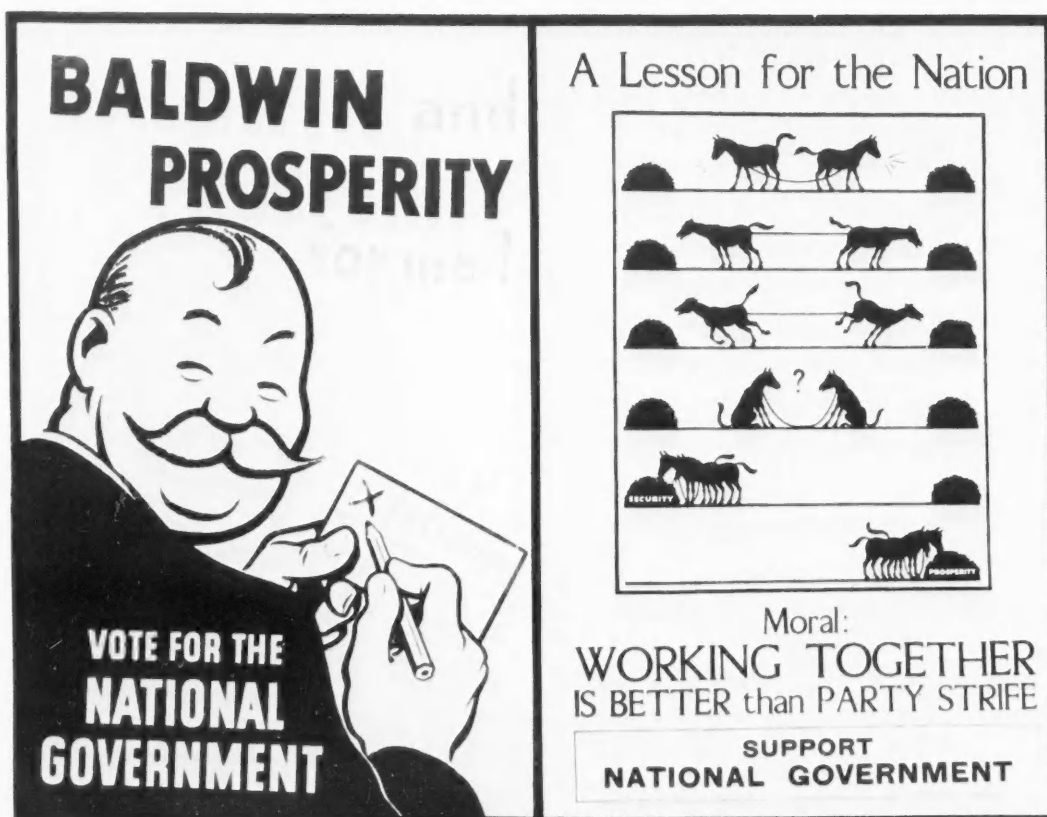
MR. KING will perhaps get less prestige than he is fairly entitled to out of the achievement at Washington. He has a more colorful personality on the stage with him, in the person of President Roosevelt, and in Canada he loses some glory because of the realization that much of the spade-work was done under a previous administration, though whether that administration would ever have got an Agreement signed is another question. But Mr. King's next move will be in London, and with luck and a good press he may easily succeed there in getting himself recognized as the world's leading opponent of Economic Nationalism. That this is his ambition there can be little doubt. His hostility to the Ottawa Agreements negotiated by his predecessor is the hostility of a man who would greatly have liked to negotiate something of the kind himself but was debarred by an unkind destiny from doing so. In order to appear as the Empire's chief prophet of intra-imperial commercial amity, he must make the work of Mr. Bennett appear contrary to true commercial amity; and some characteristics both of Mr. Bennett's disposition and of the Agreements themselves afford a considerable loophole for that endeavor.

### A MOVE UPON LONDON

IN LONDON, what Mr. King has done in the United States and what he is going to do in Great Britain will both appear much more impressive than here at home in Canada. And in part the British impression will be sounder than the Canadian. The Washington Agreement is vastly more important in its psychological effect on the Americans than in any immediate consequence it may have upon the flow of goods across the border. It is, as we pointed out last week, fundamentally changing the American idea of the whole attitude underlying Imperial Preferential Trade, by showing that that attitude is in no way incompatible with an extensive willingness to trade with any other people who will grant reasonable reciprocity. This is far more like the impression that the British desire outside nations to have than the impression that was actually created by the Ottawa Agreements at the moment of their making. When Mr. King signed under Mr. Roosevelt he was signing in the name of King George "in respect of the Dominion of Canada," to use the official language; but he was declaring an attitude on behalf of the whole British Empire, and one of which Great Britain in particular strongly approves.

As for what Mr. King will do in Great Britain, it will be less a matter of altering Mr. Bennett's schedules than of altering the spirit in which they are applied. Canada cannot hope to get very much more "preference" out of a nation which is only reluctantly protectionist at all, and Canada should not have to grant very much more in the way of tariff concessions to hold what preference she has. But the spirit in which the preferential tariff was managed by Canada after the schedules had been accepted was unnecessarily, and as we now know from the Exchequer Court decisions, illegally niggling; and it will be in the attitude of administration more than in the terms of negotiation that Mr. King will appear more ingratiating.

Canada has everything to gain from the removal of the shackles upon world trade. A nationalistic economy has nothing in it for this Dominion. If Mr. King can lead the world in this direction, in the effective sense of getting a substantial part of the world to follow, we say "Go to it!"



"A LESSON FOR THE NATION", OR, THE WILLING PUPIL.



# ADVENTURES OF ALICE IN MONEYLAND

BY A. M. MOWAT

"THE Land of Luna," said the Mad Hatter, "in addition to being one of the largest and richest countries in the world, has a population unsurpassed in brains, energy and enterprise."

"Are they a happy people?" asked Alice.  
"For a long time they were not," said the Mad Hatter. "They were very unhappy. Millions were starving or destitute. Still more lived a hand to mouth existence in insanitary hovels and tenements, and even those who were able to maintain life in comparative comfort lived their lives in constant dread of being reduced to beggary. Only a trifling fraction of the people were rich enough to feel secure."

"Then I don't see why you call it a rich nation," said Alice.

"Oh, it was rich enough," said the Mad Hatter. "If I even started to give you an inventory of its farms, mines and industries, you'd hardly believe it possible that any nation could have such wealth."

"Why didn't the people enjoy it, then?" asked Alice.

"They were unable to do so," said the Mad Hatter, "by reason of their loyalty to their constitution."

"What did their constitution say?" asked the March Hare.

"Their constitution," replied the Mad Hatter, "after declaring in the preamble that all men have a right to life, liberty and the pursuit of happiness, went on to state that the people of Luna believed in and adhered to the good old rule, the simple plan, that he shall take who has the power and he shall keep who can."

"Ah!" said the March Hare, "a planned economy—excellent!"

"Exactly," said the Mad Hatter, "and a simple, straightforward plan at that. Moreover, so loyal did the people prove to their constitution that the plan was very nearly carried through to its logical conclusion."

"What do you mean by its logical conclusion?" asked Alice.

"I mean," said the Mad Hatter, "that the Takers and Keepers having kept and taken everything, including money which was worth taking in the Land of Luna, the bulk of the people found themselves unable to buy the wealth which they saw all about them."

"Extraordinary!" said the March Hare. "But in that case why didn't they go to work for the Takers and Keepers, get wages from them and then buy what they wanted?"

"Pshaw!" said the Mad Hatter, "you don't understand how a planned economy managed by Takers and Keepers works."

"Then tell us," said Alice.

"To understand that," replied the Mad Hatter, "you must know that of all things that a Taker and Keeper believes in taking and keeping, money is the chief."

"And very natural, too," said the March Hare, approvingly.

"SO A time came in the Land of Luna," continued the Mad Hatter, "when the Takers and Keepers, having taken everything that was to be taken, could not see any good reason for hiring the people to make more food and goods for them, unless the people could pay them more for those goods and food than they paid to them in wages."

"But," cried Alice, "if the people had nothing except their wage, then their wage was all they could pay for the food and goods."

"Very true," said the Mad Hatter, "and the Takers and Keepers, realizing this to be the case, naturally stopped hiring the people to make any more food and goods."

"But that was awful!" cried Alice. "Do you mean to say that all the farms and factories had to stand idle because the Takers and Keepers couldn't get more money out of the people than they paid to the people in wages?"

"That's just what I do mean," said the Mad Hatter, "and that's what the Takers and Keepers meant, too."

"But wasn't there any way out of the difficulty?" asked Alice.

"Apparently there used to be," said the Mad Hatter, "and a very fine way it was, too. In the old days the Takers and Keepers would hire the people not only to make goods for them but, in addition, would hire them to make new factories as well, and since they paid them wages both for the goods they made and the factories they built, the people had enough money to pay the profitable prices which the Takers and Keepers charged them for the goods."

"I see," said Alice, "but what happened when the new factories began turning out goods?"

"Why, then," said the Mad Hatter, "the Takers and Keepers paid the people wages for building still more factories. You can see for yourself, Miss Alice, that so long as the Takers and Keepers kept paying out money in wages for new factories, the people would always have the necessary additional money to pay the Takers and Keepers a profitable price for the goods the people were making for them."

"Then if that system was so good," said Alice, "why did it ever stop?"

"IT WAS chiefly in this way," replied the Mad Hatter, "Thanks to the increasingly wonderful tools in use on the farms and factories, the amount of food and goods increased much more rapidly than did the wages. The result was disastrous, because one fine day the Takers and Keepers discovered their warehouses were bursting with food and goods and the people didn't have nearly enough wage-money to buy them at any price, let alone profitable prices."

"If that was all the trouble," said Alice, "why didn't the Takers and Keepers fix everything up by paying out a lot of money to the people, so they could buy the food and goods?"

"My dear girl," said the Mad Hatter, "you misconceive the primary aim in life of a Taker and Keeper. He is not trying to make and distribute wealth but to acquire money. For him to give higher wages, merely, that food and goods may be made and distributed, would not be merely to run counter to all his inherited instincts, but would be an act of disloyalty to the plan of the constitution."

"Then if the Takers and Keepers felt so strongly about it," said Alice, "why didn't they hire the



BRITANNIA: "May I ask, Mr. Baldwin, what you represent?"  
BALDWIN: "Ah! That's what they have to find out."

people to build a lot more new factories and pay as high wages as their inherited instincts would permit."

"To be quite frank with you," said the Mad Hatter, "the people seemed so horribly penniless, that the Takers and Keepers didn't feel justified in doing so. The more they considered the situation the blacker it appeared. Everywhere they looked they saw nothing but moneyless and near moneyless people. They felt that the safest plan was to let the people starve."

"Was nothing done then?" asked Alice.

"I'm sorry to say there was," replied the Mad Hatter. "The Government of Luna had the impertinence, not to say treason to the constitution, to undertake the new factory building program itself."

"Tut! tut!" said the March Hare, "an unwarranted interference of Government in business. What right had it to interfere?"

"No right at all," said the Mad Hatter, "but it had any amount of trumpery excuses."

"What were they?"

"THEY are hardly worth repeating," said the Mad Hatter, "but it said that it was the duty of a Government to save the people, and that the people of Luna were destitute or starving. Secondly, it said that though there were ample food and goods in Luna, the people could not buy them for lack of money. Thirdly, that the factories and farms from long disuse were deteriorating daily and if they remained idle indefinitely would lose all their value, and, finally, it remarked that as the chief thing necessary to save the people and start things running again was to put money into the hands of the people, it, the Government, was going to do it by taking over the building program for new factories."

"Where did the Government get the money to finance such a program?" asked the March Hare.

"It borrowed it from the Takers and Keepers and agreed to pay them interest on the loan," said the Mad Hatter sadly, "that was the meanest part of the whole transaction."

"I don't see why," said Alice.

"You probably don't," said the Mad Hatter bitterly, "so I'll tell you why. You see, though the Government promised to pay them interest, it knew perfectly well that it could only pay such interest by

just taking it from the poor Takers and Keepers in the form of taxes, as they were the only people in Luna who had any money. In other words, the poor Takers and Keepers would be paid their interest with their own money."

"It was a dirty shame," said the March Hare hotly, "Why didn't the Takers and Keepers refuse to loan them the money?"

"They didn't refuse," said the Mad Hatter gloomily, "because the Government told them, if they did, it would simply print what money it required and use it. In the eyes of a Taker and Keeper, Miss Alice, that is the most terrible thing a Government can do."

"What I want to know," said Alice, "is, did the Government's building and spending program put money into the hands of the people?"

"I'm afraid so," said the Mad Hatter wearily.

"And did it save the people from destitution and starvation?" asked Alice.

"I believe so," grumbled the Mad Hatter.

"And did it give them work to do?"

"I think so," groaned the Mad Hatter.

"And did it save the farms and factories of the Takers and Keepers from being ruined?"

"It probably did," sighed the Mad Hatter.

"Then what on earth are you groaning and grumbling about?" cried Alice.

"If I'm groaning," said the Mad Hatter coldly, "it's because the Government of Luna destroyed its own constitution."

"How so?" asked Alice.

"WHY," said the Mad Hatter, "the Constitution of Luna said distinctly that he shall take who has the power and he shall keep who can. When the Government of Luna made those poor Takers and Keepers, who had cornered all the money, loan it, in order to start the building program, they wrecked the Constitution, and to all intents and purposes they took the money without interest."

"But if the Government hadn't," cried Alice, "the people would have starved and even the Takers and Keepers would have been ruined."

"What does that matter?" said the Mad Hatter, testily. "In a crisis of this kind, a man's duty is to stand by the Constitution."

"My word!" said Alice.

## THE BRITISH ELECTION

(Continued from Page Two)

months may well see a sharp tussle in the Cabinet between the elements which favor a rapprochement with Nazi Germany (on the ground that she is a bulwark against Bolshevism) and the elements which profoundly distrust her. If in the reconstruction of the Cabinet which is inevitable Mr. Winston Churchill is included, the anti-German forces will receive a strong reinforcement.

THE Labor party must be disappointed that it has

gained about 90 seats instead of the 150 which it had hoped for, but it has no reason to be dissatisfied with the result of the election. It was handicapped by a change of leadership a month before polling-day, a division in its councils on the question of sanctions, and the departure of the Independent Labor element under the leadership of James Maxton to a separate tabernacle. As usual it had to fight without adequate press support outside the London area, where the *Daily Herald* has now made itself a real power, and it had very scanty party funds, but still it managed to poll ten million votes, by far the largest total in its history. Moreover, not only were all its prominent leaders who sat in the last Parliament re-elected, but a group of experienced Laborite captains like J. R. Clynes, A. V. Alexander, H. B. Lee-Smith, Thomas Johnston and Hugh Dalton regained seats which they had lost in 1931, and some useful recruits were brought into Parliament. In the past few years Labor has suffered greatly from the fact that its small parliamentary contingent of sixty, being hopelessly over-weighted in numbers and outgunned in debating power, were unable to put up any real fight except on rare occasions against the Government and perform the proper functions of an Opposition, but this disability has now been remedied and the Labor Opposition in this Parliament, although it will always be outvoted in divisions, will be a formidable fighting party and be able to call the Government sternly to account for any errors and follies and fill a role that is indispensable to the healthy operation of parliamentary government.

The manifesto which contained the Labor party's

election platform differed less in content than in emphasis from the program of the Government. It stressed the party's determination to work for peace, but while it advocated the abolition of National Air Forces, it pledged itself to maintain such armaments as were necessary for the fulfilment of obligations to the League. It recorded the party's belief in the public ownership of the banks, certain key industries and the land, but its specific proposals in regard to housing industry, education and agriculture were only slightly more advanced than those of the Government.

But the Labor leaders, if they were frank, would

probably say that from their point of view the greatest gain of the late election was the virtual annihilation of the old Liberal party. With its leader, Sir Herbert Samuel, and his two whips defeated, and its parliamentary strength reduced to twelve, it is difficult to visualize how it can survive as an effective political organization and put up more than a few scattered candidates at the next election. Under certain circumstances the National Liberal faction, who held their own fairly well and, only losing four seats on the balance, are still 32 strong, might reunite with the Opposition Liberals. But they are much more likely to lose their separate identity by being absorbed in the Conservative party. So the Liberal party of Gladstone and Asquith seems fated to disappear. The Laborites have always contended that until the Liberal party was extinguished as a fighting political organization and Labor was left as the only agency for the expression of anti-Conservative views, they could never hope to achieve a working majority in the House of Commons. Thirty years ago Keir Hardie was preaching that the Liberal party must be destroyed before Labor could come into its own, and now the destruction seems to have been accomplished. There are shrewd Tories who have always argued that it would pay their party to keep the Liberal party alive and give it fair representation, but this boat has been missed, and the virtual restoration of the two-party system in Britain means that sooner or later a Labor Ministry will be placed in power with a clear majority.

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## —National Affairs

# THE TARIFF AGREEMENT

BY ROBERT CAYGEON

MR. MACKENZIE KING has at last succeeded in getting a measure of reciprocity. Reciprocity with the United States has always been a cherished hope of his, but one which, in the past, has earned him a great many sobriquets. Combined with the fact of his service in the Rockefeller Foundation during the war, Mr. King's enthusiasm for reciprocity was taken as further evidence of his alleged anti-British and pro-Yankee sentiment. Time, however, sometimes makes martyrs out of rebels, and Mr. King's treaty of reciprocity is today generally hailed with satisfaction as a sound act of statesmanship.

All measures affecting export and import duties are so befogged with emotions generated by Protectionists and Free Traders that it becomes very difficult to evaluate any specific change in these imposts. In general, the reduction of tariffs is hailed as a victory for the Free Traders and accompanied by corresponding ignominy from the Protectionists. General tariff increases are labelled "Protection" and are reported as putting to rout those who would sell their country out to the foreigner and leave our workmen unprotected against the competition of intensive mechanization and mass production technique, as exemplified in the United States, or a standard of living fit only for slaves as exemplified by Japan and Czechoslovakia. Under the circumstances, it is difficult to find a generally accepted criterion by which to judge what goods should be dutiable and how high the duty should be.

THE Protectionist regards the manufacturer and industrialist as employers of labor and argues that to create conditions under which they can maintain profits is to guarantee that their payrolls will be maintained. For some reason or other, people who employ themselves, such as the farmer and the small retail merchant, are not regarded in the same light. The income of one thousand people who support themselves by agricultural production or distribution services is just as important as the income of an industrialist with one thousand men on his payroll. The fact of the matter is that the manufacturer does not calculate the names with which he pays his employees. He has collected it from the consuming public as the proceeds of selling goods manufactured in a previous cycle of production, or has borrowed it from the bank on the strength of sales he is about to make. The consumer on the other hand, does not calculate the money with which he purchases goods but has acquired it as wages paid to his other self who is a producer or as interest on his savings.

AND so it is evident that we have to consider the interests of neither the consumer as such, nor the industrialist as such, nor yet the agriculturist as such, but the relationship existing between them. We have to consider the "valency" to borrow an expression from chemistry, of that compound of elements known as commodity. In a perfectly free economy, such as would prevail with a fixed metallic standard of currency in the chief trading nations and with a large undisturbed movement of goods and profit balances between them, this valency is automatically preserved and adjusted to changing world conditions through the medium of prices. Free trade has then the weight of argument on its side, because anything else hinders the workings of natural laws towards the preservation of that balance between the different elements of the commodity to which reciprocity has been made.

FREE trade being an obvious impossibility, it remains for governments to pursue the restoration of the proper balance between the different commodity elements in their countries by such other means as seem open to them. One of these is the method of deliberate interference with price levels by the devices of processing taxes and production controls, a method which is being diligently pursued in the United States and was earlier affectionately named at by the late Canadian Government. The other is the protection of external markets for the depressed elements by offering lower advantages for foreign goods of some other type. This is the method adopted by the new Canadian Government, and it is perhaps a little surprising that the American Government, still ardently devoted to the processing taxes and controls, should not so readily consented to a considerable increase of imports of the controlled articles in return for an enlarged market for some of its manufactured goods.

Most of Canada's primary resources are granted easier entry into the United States. We are assured on excellent authority that all of the reduction made in Canadian products are of sufficient importance to ensure a substantial increased movement across the border. In return, reductions of tariff are granted by Canada not save in a very few instances, very pronounced reductions on a long list of manufactured articles of American origin. The advantages appear to outweigh the disadvantages. Few of our secondary industries seem to be seriously menaced. The protection on agricultural machinery, it is true, has been cut in half. But this industry has for so long been catering to a deeply depressed market that it is very doubtful whether it has been able to avail itself of anything like the amount of protection it has been offered by the tariff, and it is not improbable that the improved solvency and increased purchasing power of the agricultural population will go far to offset, even to the implement makers, the consequences of their reduced protection. Twelve and a half per cent ought in any event, one imagines, to be a sufficient protection for the non-

thoroughly established, agricultural machinery industry in Canada.

IT is an important feature of the situation, that the tariff agreement between Canada and the United States has been made without prejudice to the principle of Imperial Preference or to the integrity of the Ottawa Agreements, and apparently without exciting any hostile comment in Great Britain. There is now an interesting possibility of a revision of the Ottawa Agreements themselves, which were signed in 1932 with five years to run. The British Government, there is reason to believe, was not wholly satisfied with the terms of those Agreements and would welcome an opportunity of re-writing them on broader lines, and it will not be surprising if, while removing some of the more cherished grievances of the Britishers, Mr. King succeeded also in securing some few additional advantages for Canadian primary producers. The British Government which negotiated the original Agreements has been returned to power with a strong majority, and will presumably be disposed to continue the policy of broadening the channels of trade by mutual concessions between individual nations.

THE complaint that the Canada-United States agreement is not guaranteed to run even for the brief period of three years which is its nominal life, but may under certain circumstances be terminated on thirty days' notice by either party, seems to be somewhat exaggerated. Three grounds are assigned on which cancellation may take place. One is the establishment by either country of quantitative restrictions on imports of any article in conjunction with governmental measures to regulate or

control supply or prices. One is "a wide variation in the rate of exchange" between the two countries, sufficient to prejudice the industries or commerce of either. One is a complicated clause dealing with the possibility that a third country, entitled to the benefits of the concessions in the agreement through some other treaty or convention, might "obtain the major benefit of such concession" and an unduly large increase in imports might take place. In all these cases it is proposed that negotiation shall take place between the two governments, but in the event of failure to reach a new agreement the present agreement may then be denounced by the aggrieved party. It does not appear likely that the agreement will be denounced within three years on any of these grounds.

AS a matter of fact, Mr. Roosevelt did not do any very sagacious thing politically in granting the concessions to our agricultural produce which are embodied in the pact. If he realized this and did it with his eyes open, believing it to be the proper thing, so much the more credit to him. The farmer in all lands is a thorny and difficult person, prone to suspicion and jealousy. He has the right to be, having been exploited more thoroughly than anyone, on account of his defencelessness. The American farmer sees in this new trade agreement another sacrifice of agriculture to industry. Roosevelt has enjoyed the most devoted adherence of the farm population, and agriculture has given him his strongest support. If the farmer suspects that even his friend the President has betrayed him, he will labor as heartily for Mr. Roosevelt's downfall as he once did in his behalf.

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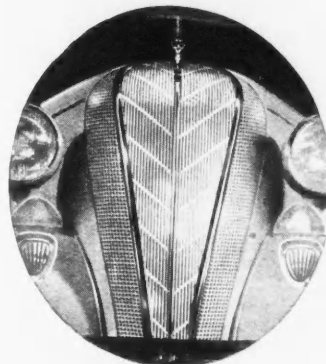
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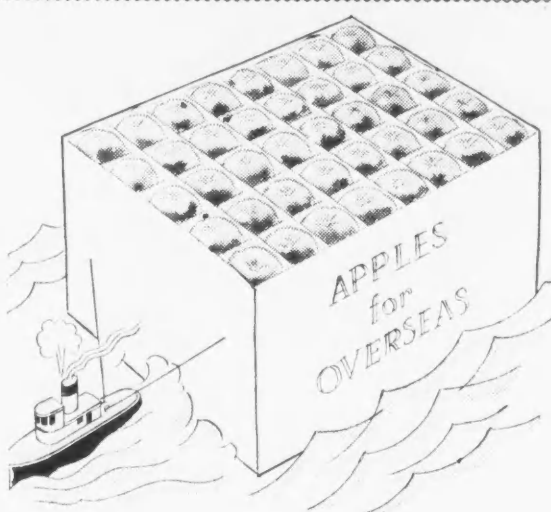
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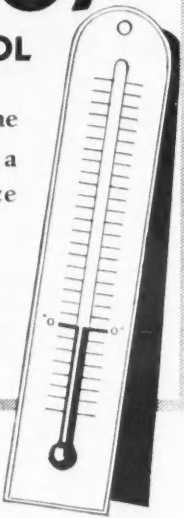
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### BRAVE BLONDE WOMAN

"Marguerite of Navarre, First Modern Woman," by Samuel Putnam. Longmans, Green, \$4.

BY MARGARET LAWRENCE

THIS study is interesting as a technical contrast against the biographies of Zweig, of Marie Antoinette and Mary, Queen of Scotland and the Isles. The contrast lies in biographical method. It is written by an orthodox historian. It is carefully documented. The author is steeped in his period. He is not steeped in the psychiatric doctrines of Vienna.

The Queen of Navarre was one of the scintillating company of cultivated women of the Renaissance. Margaret More, Mary Stuart and Elizabeth Tudor. She had a little of each of them in her. Some of Mary Stuart's early joyous charm. Some of Elizabeth's political sagacity. And a devotion to her brother, Francis the first of France, which however unworthily approximated Margaret More's devotion to her great father, Sir Thomas More. In addition she had something else which makes her perhaps more interesting to the modern woman than all these others. She originated the Salon in France and she was a writer. A little traveling desk accompanied her everywhere. She remains in history not as a good Queen which she was, but as a fine Saloniere and as the author of the "Heptameron," that collection of lovely stories, spontaneous and natural, which took the Boecetian formula and applied it to real life happenings in her own time. To the thinker she has a still more interesting quality. She was a woman who in the midst of the most emotional period of European history, the religious upheaval, remained emotionally intact, able to feel with her intuition what Erasmus realized with his reasoning, that truth was to be found neither in the ardor of the Catholic of that time on the defense for the historic church nor in the ardor of the Protestant rebel eager to throw down completely the centuries of religious belief as sponsored by the officers of the church in Rome, but somewhere between the two. It put her, as it put Erasmus, in the brave slight ranks of the apparently inconsistent.

Mr. Putnam has isolated her from the glamorous background of her magnificent brother. In passing, he shows us that there is ground for the psychiatric prowler into her interior, but he passes on, suggesting that there are many forms of love, and that a woman's love for her father, or her son, or her brother is not of necessity an emotional fixation distorting her whole life. That is the attitude of a gentleman and a scholar. But it is a little aloof and a little reserved. What made Marguerite of Navarre into a blue stocking woman was an intense desire to equal her brother in intellectual accomplishment, and a later desire to defend her spirit from its disillusionment both in him and in other men. The adventure of learning was the one adventure that never went bad. So at forty she learned Greek.

Until this book came out Marguerite was lost in the history of her brother, that fascinating rascal who waged continual war upon the Emperor Charles, the King of Spain, and who out of utter boredom started many enterprises, among them the exploration of the New World under Cartier. She emerges from Putnam's researches a sensitive, courageous blonde woman, pure in her spirit, with a deep feeling for the mystery of religion and a great respect for scholarship, torn within herself between her heart and her mind and all the time under the glamor of a King who was widely acquainted with sin.

### FALL AND RISE

"Red Sky in the Morning," by Robert P. T. Coffin. Macmillan, \$2.50. "Edna, His Wife," by Margaret Ayer Barnes. Thomas Allen, \$2.50.

BY WILLIAM M. GIBSON

TWO more essentially different novelists than Mr. Coffin and Mrs. Ayer Barnes it would be hard to cite, yet in their most recent publi-



MARGUERITE OF NAVARRE. From a drawing in the Bibliothèque Nationale, Paris.

cations they have struck something of a common ground. Mr. Coffin, poet, biographer and essayist, has taken the decay of a family as the motif of this, his first extremely sensitive novel; and Mrs. Barnes, describer of the wholesome and satisfying simplicities of family life in the American scene, has written of the ever upward progress of the founding Paul Jones and Edna, his wife.

And there the connection ceases, just as abruptly and no more surprisingly than it began. Mr. Coffin is a poet; even when he turns his hand to fiction, he cannot discard the attributes of his true meter. It would perhaps be true to say—and this without slur or favor that Mr. Coffin is a novelist's novelist, and Mrs. Barnes a novel reader's. Each of these novels has its own charm, its own interest; Mr. Coffin's is naturally more elusive, more delicately sensitive than is Mrs. Barnes', but hers in its turn recaptures the "family" spirit of the past three decades in a manner that cannot fail to enchant.

"Red Sky in the Morning" "Sailor, take warning" is the second line of the old Maine rhyme. It is essentially a psychological study. It ends, inevitably, in disaster. Will Prince, son of the down and out seaman of a brilliant race of sea captains, cannot reconcile himself to the fact that the father whom he adores hates him with a terrible bitterness. He and his mother have been banished by the father to the decaying family house, enfolded and many roomed, and it is there that the drama is played out.

Mr. Coffin's broody and sensitive characters reveal in some slight measure the Mannon family of "Mourning Becomes Electra"; whether it is that the Maine coast gives to its dwellers some strange, almost fey heritage, or whether it merely creates that effect on those who write of it, cannot be discussed here. But the fact remains that Mr. Coffin shows it to his readers as a place where all non-essentials are swept aside, and where basic emotions take full, grim sway.

There can be no need to sigh for the Snows of Yesteryear, as long as there remain novelists like Mrs. Barnes. In telling the story of Edna Losser, she also tells the story of American middle class family life. From the days of the Gibson Girl right up to the present, she brings it all back; what people were thinking, what they were wearing, how they furnished their houses and all the rest of what might, for lack of a better term, be called the History of Manners and Modes. We have all met Edna, the woman who has grown so rich that she is left with nothing to do, the woman who out of sheer boredom goes to the movies at eleven o'clock in the morning; that is the portrait presented by Mrs. Barnes, the progress of the cheerful, hard-up young girl and wife who grows into a wealthy and she herself can't understand just why vaguely discontented middle age. Meet "Edna, His Wife," and you'll recognize a lot of people you know in your own town!

## THE CRIME CALENDAR

BY J. V. MCAREE

IT IS an indication of the respectability to which writers of detective stories have attained that the *Times* Literary Supplement recently gave the best part of two pages to a consideration of the work of Emile Gaboriau. The occasion was the hundredth anniversary of his birth. His literary work was crowded into seven years and he died untimely at the age of thirty-eight. It is recalled that his detective, Lecocq, made certain original contributions to the canon of the art. It was he who, distrustful of the face of the fallen clock which pointed to twenty past three, and pushing the hands to the half hour, heard it strike eleven. He was the first to scrape plaster from the ceiling, nay it with water and thus imprison a foot print. He was the first to print a sketch plan of the scene of the crime. He was the first to distrust the suspect who seemed to have an iron bound alibi. His deductions were almost as startling as those of Poe and Conan Doyle. For instance, after examining tracks in the snow he said: "He is middle aged, at least five foot ten in height, dressed in a brown, woolly overcoat and a soft cap and probably married." His failure, as we regard it today, is that he was windy, moralizing, and regarded his detective story as of only equal or even less importance than the heart interest. Another failure, so far as the present critic is concerned, is that his characters nearly all have French names

because, we presume, he was a Frenchman, his stories were laid in France, and the people actually were French people. Yet foreign names were always found a bar. The *Times* Literary Supplement suggests that the detective story has now made a full circle and is nearly back at the place where Gaboriau left it, and suggests that if its development is to continue it probably will lie in the direction of making a detective story also a novel, not a mere intellectual entertainment but perhaps a criticism or interpretation of life. Our own opinion is that this will be a fatal error. We have pointed out again and again that the vogue of the pure detective story is almost wholly due to the fact that it does not stir the emotions. We have also remarked in public that it used to be a habit of ours to read "Tess of the D'Urbervilles" every year. The last time we laid it down we reflected that it was the occupation of an ass or some kind of pervert actually to burrow himself again and again by falling in love with Tess, and taking leave of her as the black flag was run up at the moment of her death. It is true that the art of writing detective stories has reached something akin to perfection, and one cannot expect, nor desire, much improvement in this direction. Personally we shall be more than satisfied if the masters in this field just keep on being nearly perfect and disregard the advice given them in the *Times* Literary Supplement.



## First Snow...

I looked out my window the other day to see the first snow drifting past. The autumn was gone, burying summer in a blanket of russet leaves. And now, winter again!

Winter again: snow in your shoe tops, frozen ears and toes, coal bills for black diamonds that melt like snow, streets full of slush or slippery as a fake stock salesman. But winter of crisp sunlit mornings, too, with a nip in the air to make you stretch out your stride like Mussolini on his way to an ovation, with shouting skiers in the hills and hot drinks around a roaring fire at blue dusk, the click of skates, the noisy rivalry of hockey crowds, the jingle of sleighbells, the childhood memory of counting the days till Christmas...

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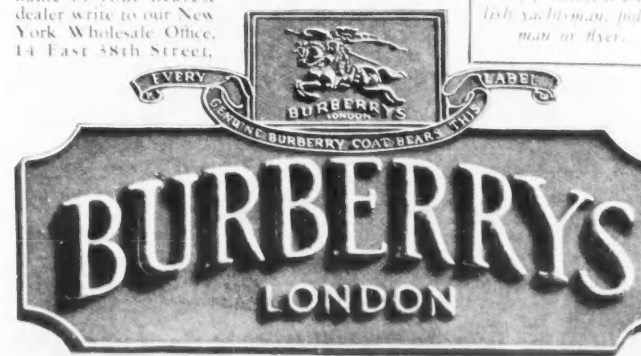
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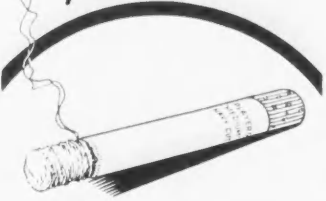








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## SATURDAY NIGHT

THE CANADIAN ILLUSTRATED WEEKLY  
BERNARD K. SANDWELL, Editor  
Mark S. Hodgson, Advertising Manager

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## AT THE THEATRE

### "HOUNDED BY HATE"

BY MARY LOWREY ROSS

THERE isn't much doubt that our contemporary drama is going to be lots of fun thirty years from now for the generation at present in its bassinet; a reflection which should touch us to treat the dramatic conventions of our forebears with respect. Apart from a certain roguishness in the program notes and a tendency to music-hall burlesque in the entre-act numbers, the current Hart House melodrama, "Hounded by Hate," is treated with every consideration and sincerity. The director, Nancy Pyper, has hewed closely to the original line, letting the comedy fall where it may. And thanks largely to the performances of Mr. Murray Bonnycastle and Miss Ardor Kony as hero and heroine, it falls with gratifying frequency.

Mr. Bonnycastle's characterization in particular, was a triumph of antic idealism, expressed in autograph-album lines and inspired store-dummy attitudes. The other roles—the high-minded father, the sheriff, the villain, even the beleaguered heroine—are largely stock parts from the Victorian morality play; but Mr. Bonnycastle's Arthur Ridley was a pure Tennysonian conception, straight out of his own period, a survival rather than a reproduction.

"Hounded by Hate" is a perfect study in melodramatic structure. It is quite possible if one were to be academic about it, to trace from it most of the derivations of modern popular drama: the elucidation, the build-up, the whole innocent mechanism of climax and denouement. If it is funny as presented by the Hart House players—and it is often extremely funny—it is largely because a third of a century can always turn dramatic inventions into stage-cliches and stage-cliches into comedy gags. A good deal of it could be cut without destroying its formidable integrity—at times it seemed if anything over-faithful to the pace and eloquence of the original; and the curtain waits, even with speciality acts in between, were as usual interminable. But there are any number of compensating moments for lagging intervals, such as Arthur Ridley's perfectly delivered lines on the death of the villain, "Let us carry him to the house where his few remaining hours of life may be made more comfortable," or the exit device, "Come, let us go and look at the stock" (I am quoting from memory). Since we had to wait, these were worth waiting for.

### COMING EVENTS

LEADING soloists who will be heard with the Remilly Boy Singers at Massey Hall, Thursday evening, November 28th, include Iswyn Roberts, Jackie Rees, Willie Melvin and Colin Bettel. All are prize winners and gold medalists and all have taken part in recent competitions, which has maintained for this famous choir its outstanding place in Welsh choral music.

The Remilly Choir is a product of an elementary school at Parry, South Wales, and has been in existence now for thirty years, the present members following in the footsteps of their predecessors who twenty years ago triumphantly toured Canada and the United States.

THE Five Piano Ensemble—Stewart, Seitz, Guerrero, Malcolm and Golden—will present a specially prepared program in Maple Leaf Gardens on November 27th.

ALBERTO GUERRERO will play the thirty inventions of John Sebastian Bach as his program this Saturday evening at the Molloney Galleries. This is the first of three recitals of 18th century music for the piano to be given by Mr. Guerrero this season; the second program will present the sonata of that period—Ph. E. Bach, Haydn and Mozart; and the third, pieces by Scarlatti, Couperin and Soler.

THE Toronto Operatic Society is producing "Ruddigore" in the Margaret Eaton Theatre the week of November 25th. This organization, which has been in existence for eight years, has specialized in the works of Gilbert and Sullivan. It is under the direction of Corda Ward Buchner.

THE third program in the regular Tuesday evening series of concerts given by the Toronto Symphony Orchestra, under the direction of Sir Ernest MacMillan, will feature as guest artist one of the greatest violinists in the world today, William Primrose, who when heard here in the past with the London String Quartet was highly praised for the beautiful tone which he produced and the amazing technique which he possessed. His presence at this approaching concert, to be given in Massey Hall November

26th, makes it one of the season's outstanding orchestral events. He will assist the orchestra in two numbers: Handel's Concerto in B minor and the second and third movements of B. J. Dale's Suite for Viola and orchestra. Other numbers to be played by the orchestra are: Mozart's Symphony No. 19 in G minor and Strauss' Till Eulenspiegel.

THE Choristers of the Canadian Singers' Guild, under the direction of Walter Bates, will give the first of three concerts at Eaton Auditorium on Saturday, November 23. E. Power Bliss, the noted English organist, will be assisting artist. The choristers, who are members of school staffs in Toronto and district, have given many recitals in the United States as well as in Canada and are to sing at Town Hall, New York, on April 11th.



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May I conclude by saying that this is a time when dreaming and chaf throwing should cease and all responsible Canadians should put their shoulders to the wheel. Only thus did the pioneers overcome obstacles and create the Canada in which we live, and only thus can we prove ourselves worthy of our heritage.



# SATURDAY NIGHT

PEOPLE » TRAVEL » FASHION » HOMES » LETTERS

TORONTO, CANADA, NOVEMBER 23, 1935

## CHILDREN ARE FAVORITE SUBJECT OF CAMERA



CHILDREN are still popular. This social fact was impressed upon the adjudicators in "Saturday Night's" Photograph Competition. They found that children were the most recurring subjects in the hundreds of photographs that passed under their judicial gaze. And this class was characterized by merit as well as sentiment, for it succeeded in carrying off the First Prize as well as a Special Award.

Here are other entries which were considered attractive even if not important enough to win prizes.

*First row, left:* "Chums", by W. R. Smith, Toronto. *Right:* "Catching Pollywogs", by Dr. W. R. Jaffrey, Hamilton.

*Second row, left:* "His Dream Come True", by Charles Lord, Regina. *Centre:* "Serenity and Perturbation", by T. S. Cole, Ottawa. *Right:* "The Broken Toy", by H. S. Weldon, St. Lambert, P.Q.

*Third row, left:* "The Weary Pirate and his Friend", by A. M. Barrach, Hamilton. *Right:* "The Guardian", by Colin S. Farmer, Toronto.



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Mrs.  
Miss  
Street  
City  
Prov.

—London Letter

## BABYLON-ON-THE-THAMES

BY P. O'D

November 14th.

BY THE time this sees print the General Elections will probably be over, so there is not much use wasting space on the discussion of issues which will by then have been settled one way or the other. Which way they will be settled, no one, of course, can say with certainty. There are no certainties in politics. But present indications all point in the one direction—to a big Government victory.

One very large and important straw which may be taken as a guide to the way the wind is blowing—the straw, one perhaps should say, in view of the amount of hot air there is in it—is the recent Conservative gains in the municipal elections. Generally the Socialists have an easy time here, in the larger cities, at any rate. They are numerous, extremely well organized, and they take the trouble to vote. In fact, they are taken out by their various leaders and voted "the way you'd wather a horse," in Mr. Dooley's phrase. Thus they pull their full weight on pole it, if you prefer, and so they usually win.

But this year they have had a nasty shock, a whole series of nasty shocks, even in places which they may well have regarded as quite safe. And these seem merely the prelude to other and heavier shocks in the more important contests to come. At least, it looks that way now.

It looks, indeed, so sure a thing for the Government, that anxious warnings are being issued against apathy and carelessness on the part of its supporters. But with Mr. Attlee and Sir Stafford Cripps and the other Labor leaders loudly announcing their intention to take over the banks, and nationalize the land and the mines and almost everything else, there doesn't really seem to be much to worry about. Revolution isn't very popular just now—certainly not in England.

### BABYLON-ON-THE-THAMES

O HENRY used to talk of New York as "Bagdad-on-the-Hudson." And possibly New York has some claim to be regarded as a modern Bagdad, a city of wealth and wickedness, of color and romance and endless variety. But Mr. Herbert Morrison, the Socialist leader of the London County Council, has taken to describing London as a sort of Babylon-on-the-Thames. And on a Sunday, too! But let us do Mr. Morrison justice. Perhaps he means the Babylon which archaeologists are now laboriously excavating from the sands of the desert. Nothing could be deadlier than that, but London on a Sunday afternoon must run it a very close second. But I am afraid that is not the Babylon which Mr. Morrison really means.

"I think London has been 'going on' rather wildly," said Mr. Morrison. "It's entertaining and exciting and has been better than ever before. It is becoming 'continental.'" I think it is becoming more 'continental' than Paris. In some ways I am not at all sure that it is not the least religious city in the world. We have got to put the brakes on."

(Incidentally, note that word "continental" as the synonym for that which is reckless and highly colored and immoral.)

And all this because a member of the County Council proposed that art should be taken part in Sunday concerts should be allowed to put on a little make-up and use a few stage "props," by way of offsetting the harsh effects of stage-lighting and giving a little better illusion to their performances. The present law permits Sunday concerts, even that was regarded as a Babylonian innovation, but you have to get a license to hold them, and part of the conditions are that no make-up or stage properties of any kind are to be used. No make-up at all, girls!

The resolution was turned down by a large majority. London may be Babylonian, but it is not Babylonian enough to let a bald tenor on Sunday put on a wig or drape himself in anything but a tailed coat. Even in the wild orgy of a Sunday concert one must obviously draw the line somewhere. No wonder most of the local Babylonians devote the day to listening to the wireless or taking the dog for a walk!

### RAREST STAMP

MANY years ago, back in 1856, in fact—someone sat down in the town of Denevara, British Guiana, and wrote a letter. Having written it, they put a stamp on it, a little magenta-colored stamp printed in black. It cost one cent.

Many years later, it was discovered in a garret among a lot of old papers, in Georgetown, British Guiana, by a schoolboy that made a hobby of collecting stamps. He sold it to another collector for six shillings. In the course of time it found its way to England, where a gentleman of the name of Baron von Fertari bought it. He also had a hobby for collecting stamps, and he placed this one in his collection, where it remained for forty years—until 1922, in fact, when it was purchased by Mr. Arthur Hind, of Ulver, New York.

One day last week a large crowd gathered in a room just off the Strand. They were very serious and intent for something important was about to happen. Press photographers stood about on chairs, clicking their cameras at the assembled notabilities. There was even a moving-picture apparatus humming away at intervals in a corner.

The auctioneer stood up. Yes, this was an auction. The famous Hind Collection was being sold.

"Lot 26," he said, and he held up a little black picture-frame. In the middle of it was a one-inch square of magenta paper, very much faded, and rather badly printed in black. The rarest and most valuable stamp in the world was about to be auctioned off.

They began at £2,500, and went up by £250 at a time, until the sum of £7,500 was reached. That was the highest bid, and it was not enough. Not enough to buy a cancelled one-cent



THE BRITISH ELECTION. The poster room in the National Party's headquarters in London.

stamp, eighty years old, and so useless that not even in British Guiana could it carry a postcard the length of the street. But then, of course, it happens to be the only one of its kind in the world. It is impossible to be rarer than that.

The stamp, they say, is to be disposed of by private treaty, and negotiations are already in progress. So presumably there is someone in London willing to pay more than £7,500 for it—perhaps considerably more. No wonder he prefers to do it in private! Men have had their bumps examined for less.

### GOLF AND ART

GOLF has at last come into its own in the world of art. It has been a long time getting there, but at last it has arrived. Mr. David Jagger, the fashionable portrait-painter of the moment, has included in his new one-man show a large landscape, somewhat romantically suggestive of a golf course. In the midst of it, surrounded by an admiring throng, a short, stocky figure is swinging a club. The title is, "Homage to Bobby Jones."

And the really odd part of it all is that it really does look like a golfer looks even like the peerless Robert. The story of the picture is rather a curious one. The background was originally painted by someone else, a Victorian elder. Part of his studio furnishings came into Jagger's possession, and among them this picture—an old-fashioned arrangement of trees and grass and nymphs capering about in gauzy draperies. Jagger painted it over in the more modern manner, intending to use it as a panel in his own studio. Then one day he saw a photograph of the Georgian marvel sweeping a driver through to its beautiful and effortless finish.

"How perfectly ripping!" said Mr. Jagger, who is himself a golfer. And there and then he washed out the nymphs or scraped them out, or however painters manage these operations—and finished up the picture as it stands today.

And a very attractive picture it is. But it is to be hoped that it won't lead to a rage for golfing portraits. Most of the swings one sees on the links are not things of rhythm and beauty. Rather do they suggest the contortions of Fath-Laocon struggling with the pythons, a rheumatic Laocoon in plus-fours.

For the rest, Mr. Jagger's exhibition is the sort of thing we have come to expect from fashionable portrait painters, only a good deal more brilliantly done than by most of his rivals. He has Orpen's knack of giving to his sitters much more individuality than they probably possess, while retaining at the same time a suggestion of almost photographic resemblance. And he has much of Orpen's bold, confident brushwork, with the same fondness for vivid color and decorative arrangement. He is, in fact, quite generally regarded as Orpen's most likely successor among the portrait painters of the day.

Incidentally, David Jagger is the younger brother of the late Charles Jagger, the sculptor, who did the Artillery Memorial at Hyde Park Corner and a number of other notable things. Two very gifted and successful artists to come from a family of Yorkshire mining folk.

### TRAVELERS

Sir Montagu and Lady Allan, "Ravensarae," Montreal, are leaving the end of the month to spend the winter in Pasadena, California.

Mrs. Philippe Roy, wife of the Canadian Minister to France, is the guest of her daughter, Mrs. John Southam, in Calgary, Alta.

Miss Barbara Rogers of Hamilton, has been spending some time in Ottawa the guest of Mrs. William C. Gliddon.

Mr. and Mrs. Hendrie Leggett have returned to Vancouver, B.C., after spending two months in Hamilton, Toronto and Montreal.

Mr. and Mrs. A. Monroe Grier have returned to Toronto from a visit in Montreal from where Mrs. Grier's son, Mr. Gordon Anderson, of Winnipeg, sailed in the Duchess of Richmond to spend a few weeks with his sister and brother-in-law, Mr. and Mrs. Francis Bradbrooke, in London, England.

Mr. and Mrs. Archibald Gray have returned to Montreal from their home, "The Manor," Murray Bay, Que.

The Hon. Randolph Bruce and Mrs. Bruce of Windermere, B.C., are the guests of Miss Van Horne, in Montreal, prior to sailing to spend the winter abroad.

Mr. and Mrs. Thomas Sinclair Gore of Mexico City, were recent guests at the Empress Hotel, Victoria. Mr. Gore, a former Victorian who has a very fine collection of antiques from the Spanish occupation of Mexico, has been on a trip to the Eastern States.

Mr. and Mrs. T. Mac, Hutchinson have returned to Montreal after spending six weeks in England.

Judge and Mrs. Bonnycastle and their daughter, Miss Joan Bonnycastle, have arrived from Winnipeg to spend the winter in Toronto and have taken Mr. and Mrs. Bertram Johnston's house in St. George Street.

Mrs. Charles Blair Birkett and her baby daughter have arrived from England to spend two months with her parents, Mr. and Mrs. H. A. K. Drury, in Ottawa.

The Hon. Grotte Stirling, of Ottawa, has sailed to spend some time visiting relatives in England.

Mr. and Mrs. Harold L. Fetherstonhaugh, of Montreal, have sailed in the Empress of Britain to spend six weeks in England.

Mr. and Mrs. Robert David Mulholland have returned from their honeymoon and have taken up their residence in Sherbrooke Street, Montreal. Mrs. Mulholland was formerly Miss Joan Atkins, of Winnipeg.

Mrs. George West Jones, of Calgary, Alta., who has been visiting friends in Saint John, N.B., is now the guest of her sister, Mrs. J. P. Sharples and Colonel Sharples in Quebec.

Mr. and Mrs. L. R. Wilson and family, of Montreal, have left for Vancouver. Mr. Wilson accompanied by his daughter, Miss Margaret Wilson, and his son, Mr. Kenneth Wilson, have sailed for Australia to spend three or four years on the construction of the Jubilee cantilever bridge over the Brisbane River. Mrs. Wilson and her two small daughters will spend the winter in Victoria, B.C., and join Mr. Wilson in Australia in the spring.

Mrs. Donald Macdonald and her sons have returned to Toronto from "Sunnyside," Cobourg, and are in

Gay Crusade

when elizabeth arden was a girl she made this prayer... my life shall be a gay crusade with banners flying my army shall be women lovely... happy... gay they will be unafraid because they will know they have nothing to fear from age and decay.

my doors shall never close to those unhappy souls who think the lovely things of life have passed them by it will be so lovely to prove to them how wrong they are

as long as I live my life shall be a gay crusade for darkness and despair cannot live where beauty is

ELIZABETH ARDEN, New York, Toronto

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beaches, where visitors from the whole world gather—beckon you to lie for hours on silver sands.

Native dances and ceremonies, the Congo Caves, Victoria Falls, the mysterious ruins of Zimbabwe—these are some of the wonder-sights to see in this sister Dominion. The cities, too, are worthy of many days' visit, with modern stores, buildings, hotels, parks and gardens. And—to help add to your optimism—business is good in South Africa. For literature write or call

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ATTRACTIVE FOR WINTER. Sleek and snug is this black Russian Caracul with the leather belt supplying a vigorous note.

—Photo courtesy Joseph & Milton.

## THE DISTAFF SIDE

BY MARIE CLAIRE

EVERY year the discussion blows up again of the propriety, sensibility, or necessity of two minutes silence at eleven o'clock on the 11th of November. This year it was even more acrid than usual.

You know all the arguments. It is morbid. What do you want to stand and cry for? It is stupid. What good does it do? It is inconvenient. Why interrupt constructive work? It has no meaning for the present generation. What's it all about?

The local world of commerce having pleasantly conceded the better part of half a day to sentiment, we strolled into an almost empty office just before eleven on Armistice morning. Extraordinary to find everything so still and quiet. We stood alone at the Chief's window looking up the longest straight street in the world as the hour struck in the City Hall tower. Was it a spurious emotion that found it affecting to look up through the mist of a typical November day and as far as the eye could see discover no moving vehicle—street cars, motors, trucks and wagons suddenly arrested a traffic officer standing at attention in the centre of the street?

Thin and clear a bugle sounded, far away.

"Hey, Miss Claire, what did you stay there for? Gee, you ought to have seen the mob around the corner at the Cenotaph, all the big shots and soldiers of everything!" He was probably in long white dresses when the Armistice was signed. He thought it all as he described it himself. "A lot of hokey." He had no sense of owing them this much of drama, this much of art.

Snapping out of it smartly, we got down to work.

FROM our point of view the Book of this Week has been an Adventure Story. It is handled like a racy modern novel, it deals with strange people, wrecks, dangers and voyages on as yet uncharted seas. It is called "Asylum."

Wide awake psychiatrists must surely see some significance in the tremendous modern interest in insanity. How many novel readers missed Phyllis Bottome's "Private Worlds"; how many movie fans failed to see that engaging creature, Claudette Colbert, in the film made from the same book? We thought it was a grand picture. Our scalp rose in genuine horror at that weird cry of "I'm Carrie Flint!" and our heart turned over in our breast at the fit of Miss Colbert's tailored suit.

"Asylum" is the story of the inner workings of a great modern Mental Hospital. Its author, William Seabrook, is a journalist who voluntarily committed himself to one of the best known insane asylums in the East in the hope of getting cured of acute alcoholism. In less professional language, Mr. Seabrook, as he explains himself, was a drunk.

Every sort of uncontrolled impulse was treated in the hospital here so vividly described, from the violently homicidal to the mild melancholic. You won't learn much about psychiatry, but how the abnormal are handled, entertained, instructed and humored, their contacts with each other and the staff, their movies, their church services, above all their curiously distorted personalities make a fascinating narrative. We have a feeling they ought not to be, but the fact remains. It is all very candid. This author has few reticences and has not designed his efforts for frail Aunt Ada. Fortunately she wouldn't be much interested anyhow.

How Katharine Hepburn in "Little Women" got by the censors and caused a riot among the patients at the movies is one of the very funny stories in the book. But it left us thoughtful. You see, that breakfast scene had exactly the same effect on us. In fact, a surprised gentleman in the seat ahead of the preview here, turned and offered to shake hands with us for the pleasing vision of our outspoken criticism.

Apparently the squirrels haven't got all the nuts yet.

IF YOU read your movie magazines with any care at the dentist's or while your hair is drying—you must

have seen that the beautiful Viennese *diva*, Maria Jeritza, recently divorced her husband, Baron Von Popper, and married Winfield Sheehan, of Hollywood, a power in the moving picture world. The Baron, having looked very like his name, probably had nothing to do with it, and Madame Jeritza seems to have no anxiety to develop a career in the movies; she is about to start on a concert tour of Europe. Just true love apparently. After the wedding Jeritza flew to Newark, New Jersey, while her bridegroom "Who didn't like the look of the weather," to quote a press dispatch, "went on by train."

"It's not for your courage in battle I cheer  
That I love you, my Lord; 'tis your  
bonny blue eye."

WE THINK it time someone said a humble word in praise and defence of cosmetics. And—strangely enough, here we are doing it.

Every woman gets a little bored now and then with his saying, as she yields her lipstick or something, "Why do you do that? You'd be so much nicer without it."

Oh, bah! The adornments that were once the hall mark of a light character have now become part of the uniform of look, smart women. And nobody benefits by them more than men, who have gradually become accustomed to seeing their feminine companions perpetually bright-eyed and red-lipped, with the glow of health in their cheeks. Girls still get tired, but they won't look it; still grow pale with long hours indoors at an office desk, or even running around when below par to Committee meetings, Crèche work, or Current Events Clubs, but they feel it's weak-witted to show it. "You look



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(An Assortment)



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Wash the painful part well with warm water; then rub in plenty of Minard's and you'll feel better!



tired, let me take you home," is a form of sympathy that leaves the modern girl very chilly, indeed.

We hold no brief for the slapdash methods too often seen. Handling cosmetics is an art, and all women aren't artists. But we submit for your consideration the idea that gallant isn't too outside a word for the attempt of the average female to make something bright and gay out of what she thinks dull, or to make her vague prettinesses a little more definitely lovely. Of course it's misguided of her to paint the lily, but really, aren't there a lot more dandelions around than lilies?

We are told to "put on the whole armor. . . ." Who shall say that the bright little face with the curiously arched brows, the vivid cheeks, and the red mouth that bears no resemblance to nature, nor is meant to—one of thousands to be seen boarding trains before eight these dull mornings—is anything but courageous? Nobody actually feels as colorful as that when she rises in the dark, you know—but she is trying to look it. There is more than one variety of Swords of the Spirit.

## ABOUT FOOD

BY CYNTHIA BROWN

MY SYMPATHY often goes out to the Scottish minister whose custom it was to lunch with some or others of his flock between services. Casting his eye over the repast provided he would vary his grace according to the feelings it evoked. Facing fresh herrings, a dish he cordially disliked, he would begin, "For the least of all these Thy mercies," while roast goose and apple sauce moved him to a more fervid thanksgiving beginning: "Bountiful Creator. . . ."

I had some people to luncheon last week and even I, who ordinarily take the darkest possible view of my own parties, had quite a nice time. The food was good, too, which may mildly have surprised all the guests as well as the hostess, but only one betrayed her astonishment—a reader of this column and a bit of a cut, between ourselves, I hope her subscription has not run out.

This is the simple, nourishing and, in my opinion, thoroughly adequate menu I tried out on my guests, who are all alive today and apparently no worse of the experience.

- Celery Soup
- Baked fillet of Lake trout
- Stuffed Tomatoes
- Spinach Soufflé
- Pears with almond cream
- Coffee.

A chance to use the outside of the celery hearts you propose to serve at dinner. Boil them in salted water, rub through a sieve, mix half and half with white stock and milk, add a walnut of butter. Season with pepper, salt and a little sugar. Serve with a teaspoon of cream on top. I used a tin of chicken soup, wanting any ready "white stock."

I bought half a four pound Lake trout. The fishmonger had made the thing into two big fillets, removing all the bones with the backbone. Butter a roasting pan by melting some butter in it and squishing it around. Mix two scant tablespoons of flour with a full half teaspoon of mustard, and salt and pepper it generously. Dip the fish in milk and then in the seasoned flour. Put it in the bake pan and dot it with bits of butter. Have the oven at 350°, turn the top off and the bottom to low. Bake the fish about 25 to 30 minutes, basting it occasionally. Serve it whole on a long dish surrounded by the tomatoes, alternating with half slices of lemon dipped in chopped parsley. The fish can be cut without spoiling its appearance, so that each guest can lift an entirely boneless oblong right off the skin.

The tomatoes can be done in the same oven, but they don't take quite so long, remember. Take six tomatoes, three large mushrooms, one tablespoon of butter, chopped parsley, onion, bacon (or two chicken livers if, like me, you have found a woman on the market who sells them alone), a little lemon juice and salt and pepper.

Chop the mushrooms, onion and bacon (or livers) and fry them till tender in hot butter. Mix with some fine bread crumbs, the parsley, lemon juice and seasonings. Cut the tops off the tomatoes, remove some pulp and add it to the mixture, stuff, replace caps, and bake about ten minutes.

For *Spinach Soufflé*, put cooked and seasoned spinach through a sieve, add two tablespoons of grated cheese to one large cup of the purée, and four tablespoons of cream. Cut in three stiffly beaten egg whites, put all in a buttered soufflé dish, sprinkle another tablespoon of cheese on top, and bake about 25 minutes.

I am proud of the sweet, which I invented myself. Drain preserved or good tinned pears and set them on a flat glass dish. Sprinkle each with a few drops of brandy (or rum). Whip some cream with a little fruit sugar to sweeten it, and when it is nearly stiff beat in blanched almonds that have been put through the nut mill. The result will be a rough surfaced puffy white cream, with a good deal more substance than ordinary whipped cream. Heap this in big spoonfuls on top of the pears, chill well and serve.

IF FOR any reason you can't get or won't serve spinach—and I won't bother you for explanations—you might prefer to give them eggplant soufflé because it's trickier, or artichoke soufflé because it's so delightfully inexpensive. A soufflé of some sort is always vaguely impressive at a party—they aren't hard to make, but they do give the effect of awfully good staff work.

Eggplant soufflé calls for two small eggplants cut into slices, boiled in salted water, then peeled and mashed. To three cups of this add one tablespoon of butter, two eggs slightly beaten, half a cup of milk, half teaspoon salt, one cup bread crumbs, one cup grated cheese and salt and pepper. Put in a buttered baking dish, sprinkle with bread crumbs on top, and cook about 15 minutes. This is not, you will gather, just an airy nothing—it has substance, and isn't so apt to fall in the middle in that dejected way that fluffier soufflés may, unless handled skillfully.

For the artichoke soufflé rub six



COWBOYS AND GUESTS relax during an off moment at the Remuda Ranch near Wickenburg, Arizona.

—Photo courtesy the Atchison, Topeka & Santa Fe Railway.

## DRESSING TABLE

BY ISABEL MORGAN

THE rose-petal complexions of Englishwomen have always furnished inspiration for poets, and been the cause of envying admiration on the part of women who have not been so fortunate. Naturally, the Englishwoman has reason to be proud of it and it always is interesting to know what she uses to retain her million-dollar complexion.

A group of English preparations called "Innoxa," much used by Englishwomen throughout the Empire, have recently been brought to Canada

for the first time. They arrive bearing the impressive endorsement of none other than the famous "Lancet," journal of the British medical profession, which says among other things that, "the formula can be recommended with confidence." Said formula was originated by Dr. Francois Debat who studied under the world-famous Pasteur, and later became Head of the Dermatological Research Department of the Hospital of St. Antoine, Paris.

One of the basic preparations is the Complexion Milk, a pleasant, creamy fluid used for cleansing and keeping the skin soft and smooth. The other preparations are grouped for their best effect on each type of skin—the normal skin, the dry skin and the oily skin. Innoxa Matine is used as a foundation for powder on normal and oily skins. Innoxa Mousse Day Cream has a little more oil and is adapted to dry skins. Other preparations such as the Facial Cream Pack, Skin Food, Astrigent Lotion, Powder, Rouge and Lipstick, are used to round out a most complete treatment for every skin condition.

SCHLAPARELLI sends word from Paris that slenderness and height are accentuated in the evening. The sail skirt is launched, forecasting a future trend. Gowns do double duty with zipper backs which may be worn closed for dinner or open for formal functions. Dress fronts are capstone, or embroidered.

The hair is confined in a ruched



tulle chignon, or a restle, often held in place with jeweled combs. The wrap may be a velvet coat, a flowing cape or a tailored jacket in pastel colored "Papier Buvard," a new woolen which is also used for skirts and hats.

For day . . . the divided skirt. Some three-quarter jackets are fitted at the waist, others are straight. There is much trimming. Fur hearts appear on sleeves and pockets. There is extreme simplicity in the all black afternoon dresses to be worn under a fur or cloth afternoon coat.

Among the things for sport are bright color combinations, the "shirt

coat" in white flannel, forward blouses, shoulder seams which zip open, short jackets, interesting divided skirts.

Two unusual prints called "Music" and "Wild Horses" are noted. A widely used reversible satin is called "Square City," and there are such unusual things as linens with a multi weave, rayons raised with wool, rough checked tweeds and smooth weaves like the "Papier Buvard."

Hats are narrow at the sides with a pronounced forward slope. Berets are held in place with perfumed pins and the new straws are devoid of trimming. The hair net or restle is shown with all types.

## See Hong Kong from your apartment



AS you bask in the sun on the terraces of the biggest ship ever in Hong Kong harbor, you look across another teeming scene. This one swarming with sampans, Chinese junks, coasters, warships, liners . . . all the colorful life of this crossroads of the seven seas. You think back to other long-to-be-remembered sights from those same decks . . . that morning you saw Madeira rising out of the sea . . . the days you first gazed on the Canary Islands, South Africa, India, Siam, exotic Bali.

Then you wonder about places that still lie ahead . . . North China, Japan, Hawaii, Panama. Each a memorable adventure. And in between each port, the cozy satisfaction of a ship you love to call home.

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Also, a series of cruises to the West Indies by the *Empress of Australia* from New York. Three 18-day cruises over the whole Caribbean, \$192.50 up, Jan. 23, Feb. 29, March 21. 16-day cruise, Feb. 12, \$175 up. 10-day Easter cruise, Jamaica, Cuba, \$112.50 up.

Information, maps, plans from your travel agent or J. C. Patterson, Steamship General Agent, Canadian Pacific Building, Toronto.

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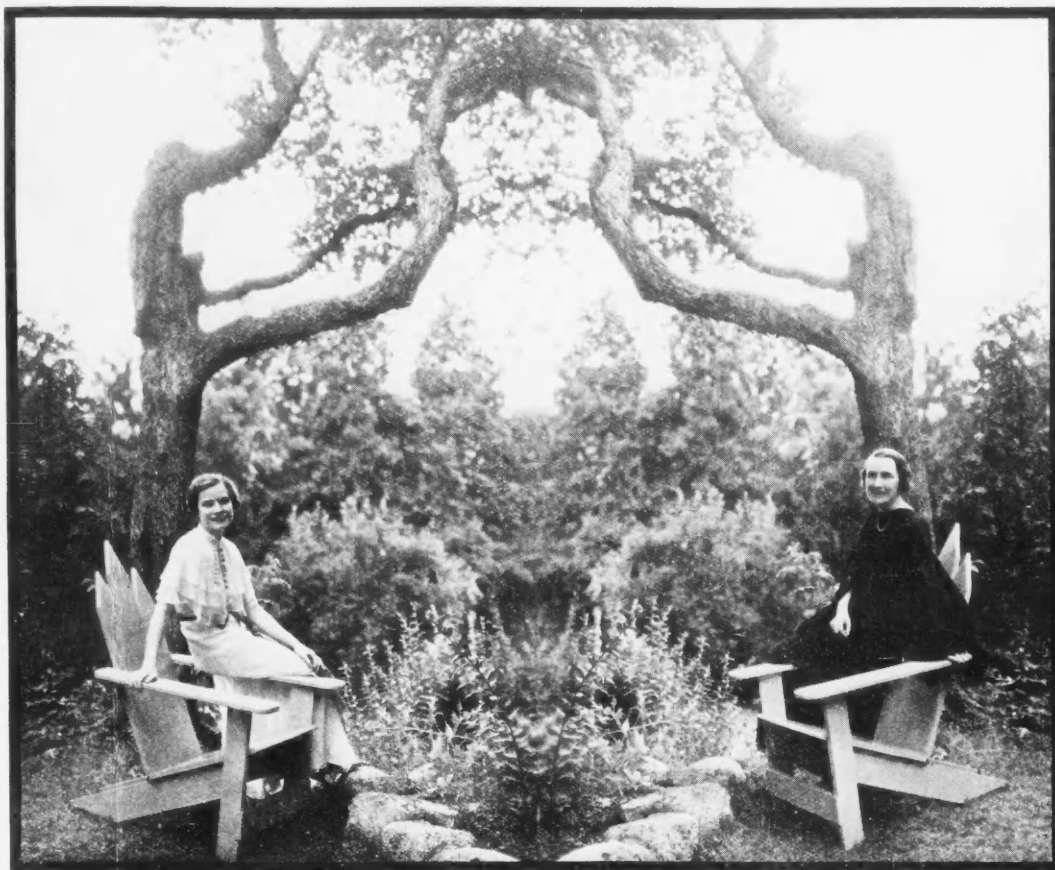
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AN UNUSUALLY INTERESTING GARDEN STUDY of Mrs. D. P. Cruikshank and her daughter, Miss Miriam Cruikshank, at their home in Ottawa. —Photo by Karsh.

## THE SOCIAL WORLD

ADELE M. GIANELLI, SOCIAL EDITOR

### TORONTO

AS THE week, the week prior to the Royal Winter Fair, but in the city, the not and debauches coming out frightened dull days, too time twined and evenings sparked, or special stimulation was Miss Virginia Copping's debut dance at the decorations were silver with pink, but lady Kemp arranged such clever indirect lighting in the spacious apartments of Eaton's Auditorium where she gave the dance for her daughter, that the silver decor became the sparsely seen of under-trees. Seated were silver and silver for illuminated round shells in the foyer and silver and silver for the little alcoves of light that led to the bathroom where the orchestra behind a gauze curtain and a background of sea-waves played their own waves of melody. This dual color scheme of silver and pink was also in the reception room where lady Kemp in silver brocade and the pretty debutante in pale pink marquisette over satin, not her white presentation gown that she had worn at Their Majesties' Court, received in front of a silver screen on which was painted pink water-lilies. Miss Cynthia Copping chose gold and white.

And how the dolls adored the novelty of slipping aboard a large—its silver swan's head and silver mast unfurling a pink sail might have floated from the carnival at Nice. Here Miss Virginia Copping and her special cortege of friends sat at small tables on which bloomed pink water-lilies. And a maid made even balloons bloom. For the piece de resistance of supper was not lady's fingers, but "milk" fingers. The delight of hand tricks of a maid's most appetizingly entertaining to the younger set who picked sixes of club-out of innocent balloons and what not, equally my-sitting. I hear that that indefatigable deb set danced till nearly dawn, so did not have long to dream of picking the solitary out of the Christmas stockings, which it would not need much of a maid's so attractive any most of them!

MR. and Mrs. J. J. Gibbons' hospitality was heartily three-fold when they entertained at "Garryloch" the other day, for included as well as their own friends, were the friends of their son and daughter as the guests of honor were younger set. So "Garryloch" "Garryloch" though it means in the beginning Irish tongue, helps its dimensions, for it welcomed cup-drops sparsely as well as graciously. Receiving with Mr. and Mrs. Gibbons was the latter's charming young niece, Miss Mary Baker. That niece, debutante, whose birthday accident put her here de combat at the beginning of her first season, but who managed, plucky, east and broken elbow notwithstanding, to look alive and very pretty in aqua-satin. The other guest of honor was Mr. Neville Berry, who adorns all advertisements, perhaps because of a picture of the printed word, being of a family of publishers. I hear he wrote "noted" publishers, so suffice to say he comes from dear old London.

In that delightful room where Mr. and Mrs. Gibbons received, some painting was reminiscent of that very same "dear old London" as the wood-carving over the mantel was after Gaudin's painting of himself, and a Rosa Bonheur painting of international interest hangs nearby. By the way, do you know that Rosa Bonheur was the first woman artist to have a picture hung in the National Gallery? It is her "Horse Fair." Some famous Japanese prints, ancient and modern, were hung on the Japanese papered walls of the sunroom, where the flower-decked table was laid out in a weight but soothed as it were, with prettiest assistants hovering about it including Miss Kay Danneberg, Miss Barbara Barrett, Miss Joan Ross and Miss Susan Ross, Miss Virginia Copping, Miss Mary Palmer, Miss Pegg, Waddle, Miss Priscilla Rand, Miss Patricia Moulson, Miss Elaine Ellis

with Miss Eleanor Temple, Miss Cynthia Fisher, Mr. Justice Fisher's daughter who came out last year, and that pretty Hamilton deb, Miss Alex Greening.

The world and his wife and his debutante daughter were there, it seemed the panelled dining-room had another tea-table; there Miss Kathleen Gibbons was a graceful hostess in smart gown of grape-satin. And downstairs, the "music room" was gay with a multitude amused at the French posters on or in silver and brass and down, everybody enjoyed themselves.

"EVERYBODY," too, is enjoying the dancing of that clever young pair, Miss Eugene Woodruff and Mr. Jimmy Struthers, at the King Edward supper-dances these evenings. For not only are the younger set intrigued at their steps but they are "one of us," as it were, in their social background. Miss Woodruff's grandfather was a Governor of New York, so in addition to her pretty personality she is politically minded and very interested in Canadian diplomacy. Mr. Struthers' family have long been participants at New York Horse Shows, so he is keen to see "The King's Year" show at the Royal. Those delightful visitors here several years ago, Mr. and Mrs. Eugene Foster of New York, are family connections of his with many Toronto friends.

THOSE three distinctly different but decidedly attractive debutantes, Elizabeth Thorburn, Elizabeth Joan Alley and Mary Palmer, made their formal bow at these afternoon receptions. The former is a striking brunette, very tall, the latter a striking blonde, tall also, and Miss Joan Alley, not very tall nor very dark nor fair, but equally tip-top in charm. At Mrs. Henry R. Alley's tea for her granddaughter, many had their first glimpse of the new quarters of the Ladies' Club, the hostess in a graceful gown silver-destined on dark sapphire blue, receiving in the main reception room which has unusual burnt amber walls against which many bouquets were banked effectively. The young guest of honor with Mrs. Herbert Alley beside her also, had her arms full of silver roses toning with her pretty maize frock. The elintz in this room is leafy-green, vandyke brown and white and occasional glimpses of it could be caught through the sliding. Around the fire, Mrs. Van der Smissen and Mrs. S. B. Marand were holding court, and Mrs. Ferdinand Marand, Mrs. Velvix Henderson and Mrs. Lawton Ridout were some other relatives of the hostess assisting.

And so many people in the tea-room, older and younger sets, what a huge place Toronto is! too large because one goes for months, even years sometimes without seeing half of "the four hundred." Mrs. Elliot Struthers, Miss Stewart Galt, Mrs. Alice Johnson, Mrs. Heath, Mrs. Felix Howland, Mrs. Berkeley MacInnes, Mrs. Alfred Wright, Mrs. Holloway, Mrs. Jack Van Nostrand, Mrs. H. G. Davidson, Mrs. Brian Schwartz, Mrs. W. B. Raymond and so many more. Great discussion in the candlelight in the new dining room, jade green in robin-egg blue.

but there was no question as to the ebullient, vandyke-like marble and certainly no doubt as to the golden glory of the "four hundred" on the long table, where among the assistants one spotted many of the deb's as well as the Misses Frances and Anne Alley and Miss Ellen Alley. Mrs. Walter Green came in with her daughter, Allie, who is both clever and attractive. Mrs. Douglas Eck, 1888's stunning tall daughter, Mary, came with her and Mrs. York Green, Mrs. W. H. Cross, recently returned from Belgium, came with her daughter, Mrs. Lucile. Mrs. Douglas Woods, who was so interested in the musical by those clever pianists, Etta Cole and Naomi Yanova, came with Mrs. D. Bruce Macdonald. Mrs. Wilfrid Chitt, chatting with Mrs. Austin Clowther and Mrs. Stewart Wallace chatting about the engage-

ment of her niece in India, the daughter of the former Marjorie Wallace, and of which I shall tell you later.

MISS Elizabeth Thorburn's aunt, Mrs. J. S. Douglas, gave her a most delightful coming-out tea, but at this there were mainly debutantes of the same vintage, and Miss Ann Harrison, a cousin, also a debutante, shared the honors. It was a jolly young people's affair, but nobody enjoyed it more than Mrs. R. T. Coady, grandmother of Miss Thorburn and mother of the hostess. She had given her granddaughter the lovely yellow roses she carried with her smart brown velvet dress, a New York model, I am sure, as this handsome deb had just returned from a trip there with her cousin, Miss Helen Gibbons of London, Ont. Miss Harrison's white crepe frock was very smart with a little red coat and a white and red color combination was striking in the crimson dining-room with huge Madonna lilies on the table, where Mrs. F. C. Clarkson and Mrs. E. O. Canfield presided. Mrs. A. L. Anderson, Miss Thorburn's godmother, was absent through illness, but her mother, Mrs. W. H. Thorburn, in a graceful purple gown, received with Mrs. Douglas, whose handsome ensemble was wine-colored.

Mrs. Britton Osler, who was holding a reception this week for her son's Kingston bride, Mrs. Molyneux Gordon and Mrs. George Kingston were a trio of "grown-ups" present besides all the deb's, and assisting with Miss Sue McLaren, Miss Betty Darling, Miss Esme Thompson and others were Miss Gladys McLeod and Miss Otilie Beatty.

PRETTY fair Miss Mary Palmer went to Les Fougères to school as several others of this year who with all the deb's as well as many of her mother's friends attended the coming-out tea Mrs. Ernest E. Palmer gave for her daughter. The Kingston Hunt Club was on fete for the occasion. Its golden brown decorations enhanced by beautiful bronze and gold chrysanthemums and the quantity of bouquets of infinite variety presented to the guest of honor. She was wearing suede velvet in wood-green shade with which her lilies-of-the-valley were exquisite, and Mrs. Palmer wore graceful wine-velvet with touches of cream lace.

Mrs. Henry Baird, Mrs. Irving Smith, Mrs. Lorne Mitchell and Mrs. C. Wheaton presided at the tea urns at either end of the table, gay with red pom-poms and branching candelabra, and among the assistants was that attractive visitor from London, Ont., Miss Mary Wright, whose gown was russet shade. Mrs. W. E. Galt, Mrs. Tice Hastedo, Miss Jeanette Barclay, Mrs. George Baker, Miss Josephine Broese, Mrs. C. B. Cleveland, Mrs. Hugh Allward and Mrs. James Ramagehall were a few of the abber.

The assistants receiving gardenia corsages with pink bouvardia included Miss Jane Palmer and Mrs. Allan Graydon as well as Miss Jocelyn Boone, Miss Ann Radcliff, Miss Ruth Tambllyn, Miss Barbara Barrett and several other deb's equally pretty.

"DINNER at eight" preceded Mr. Edward J. O'Brien's address to the Philodend Club in the Auditorium, an address of which Dr. Duncan McArthur wished the text might be published in full to the benefit of young literary aspirants. The Short Story, its hard past, its vivid future, its surprising present; the skeleton in its cupboard, the ideal of its life, where it thrives best, where it withers worst, whither, whence and how. In short, the Short Story came before the footlights with Mr. O'Brien and taking form, with him we saw it at its best and at its worst and now, maybe, shall have a clearer appreciation of what constitutes a "winner" in the realm of short stories over which Mr. O'Brien has reigned for so long.

For twenty-one years, he told us, has this been his demesne, but what

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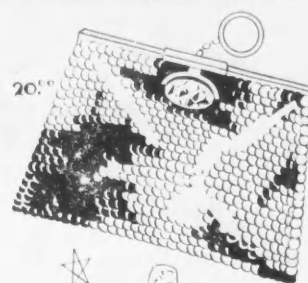
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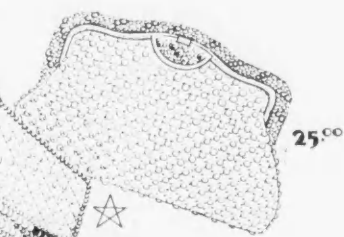
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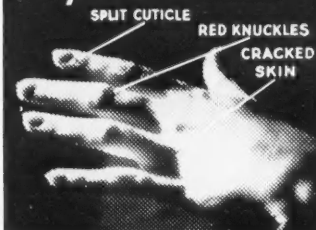
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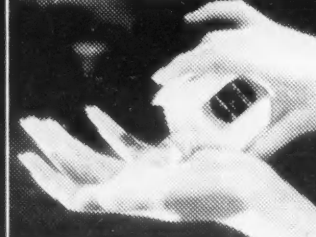
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MISS ALTHEA GREEN, debutante daughter of Mrs. Walter Green, of Toronto, and of the late Walter Green, and granddaughter of the late Elmes Henderson. Miss Green is attending Toronto University, having been awarded the Dickson Scholarship in Modern Languages, and is a keen horsewoman, having hunted with the North Cotswold Hunt when she was in England where she was presented by her mother at Their Majesties' June Court.

—Photo by Kennedy.

are twenty-one years but a breath, must have thought Sir William Mulock from his lofty nonagenarian heights. Sir William, up-to-the-minute to dinner, was there with a diminished gallantry, one with whom not short stories but tall towers take form, was Dr. John Pearson, the noted architect of that most noble of monuments, the Peace Tower in Ottawa. And a favorite from Old Virginia was Colonel Kelly Evans, who accompanied Mr. and Mrs. Alfred Beardmore.

NOT the least diverting affair of a Royal Winter Fair week will be the Toronto and North York Hunt Ball at the Toronto Hunt Club on Nov. 22nd. Numerous parties are already planned to go on there from the Horse Show at the Coliseum, and it will be a jolly evening with everybody "in the pink."

### PACIFIC COAST

THE Police Ball, which is always one of the leading events of Victoria's winter social season, was even more successful this year than it has been in preceding years. The Crystal Ballroom of the Empress Hotel, which has just been done over, was beautifully decorated with flags and shields, and the tables in the main dining-room, where supper was served, were gay with autumn flowers. His Honor the Lieutenant-Governor and Mrs. Fordham Johnson, Hon. T. D. Pattullo and Mrs. Pattullo, His Honor Judge and Mrs. Lampman, Mr. and Mrs. R. P. Butchart, Commander and Mrs. G. C. Jones and Brigadier and Mrs. D. J. MacDonald were among the several hundred specially invited guests, while notified dancing were Miss Cynthia Johnson, with her name, Mr. Jack Child, Miss Jean Lennox, Miss Isabel Hedley, Mr. Robin Piers, Miss Marjorie Todd, and many others of the younger set.

Another event of this week was the dance given at the Eglams Golf Club by Mr. and Mrs. K. G. Carey in honor of the 21st birthday of their daughter, Ruth, for several hundred members of the younger set.

Mrs. Tonkin of Salt Lake City, who is spending the winter in Victoria, and Mrs. H. T. Hughes were joint hostesses at a large tea at the latter's home on Pemberton Road. The drawing-room was beautifully decorated in pastel shades of rose, chrysanthemums and dahlias, and Mrs. Taylor and Mrs. Oakes presided over the tea-table. Among the many guests were Lady Barnard, Mrs. E. G. Prior, Mrs. J. C. McIntosh, Mrs. R. M. Gibson, Mrs. F. C. Winslow, Mrs. P. S. Lampman, Mrs. Edward Pooley, Mrs. Sutherland Brown and others.

Off to spend a few weeks in Southern California are the Misses Galt, who are lucky to escape our present cold spell, driving south with them is Mrs. Gale, and they expect to be back in time for Christmas. Mr. and Mrs. T. S. Gore are here from New York en route to their home in Mexico City and are spending a few days at the Empress Hotel. Mr. A. S. Gore, of Vancouver, has come over to join them. Two new arrivals in Victoria are Robert Bruce, son of Mr. and Mrs. Frank Skillings, the former Welda Rithet, and the second son of Mr. and Mrs. Wolfe Hicks, the former Rosemary Johnston, he is to be christened Anthony Marlin.

entertained during the last week of their stay in Victoria, and everyone was down to see them off on the Empress of Asia. During the week they were guests of honor at a dinner given by Mr. and Mrs. George T. Read, and at a cocktail party at which Miss Frances Fraser was hostess. Mrs. Read and Miss Josephine Delves were joint tea-hostesses for Mrs. Blackley, Miss Rhoda Gowan, entertained at bridge, and there were numerous smaller affairs in their honor.

Miss Vera Shearland, who is staying with her cousin, Miss Beryl Nelson, is also being entertained. Miss Eileen Tomlin had a luncheon for her at her home, "Westward Ho," the other guests including Mrs. E. Tomlin, Miss Beryl Nelson, Miss Calla Goldsmith, Miss Ruth Moore, Miss Kathleen Wilson and Miss Angela Davis; and there have been many teas for her.

Two charming visitors to Victoria recently were Mrs. W. O. Brown of Vancouver, who is staying with Mr. and Mrs. J. Murray Cameron, and Mrs. E. R. Kehlin, of Ottawa, who is visiting her sister, Mrs. P. L. Naismith. Mrs. Cameron was a recent luncheon hostess in their honor, her guests including Mrs. G. H. Hargan, Miss Galt, Mrs. Naismith, Mrs. F. C. Sweet of Vancouver, Mrs. E. V. Finland, Mrs. J. Calder Wangle, Mrs. P. Nolan, Miss Lee, Mrs. A. M. Watson and Mrs. R. W. McMurray.

In Vancouver, Mrs. Leslie Wright and her daughter, Mrs. Basil Rolfe, were hostesses at a largely-attended tea. Michaelmas daisies and chrysanthemums in autumn shades decorated the reception rooms, and yellow chrysanthemums and yellow tapers in silver candlesticks hung upon the tea-table. Mrs. Wright had chosen for the occasion a gown of printed tulle in gray and blue, with diamond clips at the neckline, while Mrs. Rolfe wore Copenhagen blue crepe with a supple blue velvet grille. Presiding at the urns were Mrs. Alfred Bull, Mrs. Alan Cameron, Mrs. W. J. Rolfe and Mrs. W. B. Sterling, while assisting were Miss Marjorie Earle, Miss Florence Fyfe Smith, Miss Patricia Palmer, and several other members of the younger set.

News comes from England that Mrs. Jonathan Rogers has arrived and is visiting her daughter, Miss Rosemary Rogers, who is studying at the Royal Academy of Music. Mrs. Rogers, F.R.G.S., has recently been awarded the Palmes d'Academie from France. Back from Honolulu, where she was staying with her cousin, Mrs. Eric George, is Miss Marion Coote, who has been away for ten months and who had a most enjoyable visit. The younger set are welcoming her back with teas and bridges, and she also has in Vancouver is Mrs. E. Bernall Cleve, who has been in England for nearly a year. "Seaside," the lovely home of Mr. and Mrs. Ernest Woodward, overlooking English Bay, was the setting for a large tea given for her by the Woodwards.

MARIGOLD

### ENGAGEMENTS

Lieutenant Colonel and Mrs. D. H. Pothmann, of Quebec, Que., announce the engagement of their daughter, Marie Elizabeth, to Mr. Gordon M. Conner, of Montreal, son of the late Mr. George Conner, and of Mrs. Conner, of Sherbrooke.

### MARRIAGES

The marriage took place in Montreal on November 20th of Miss Margaret Mary Black, daughter of Mr. and Mrs. Robert A. Black of Westmount, to Mr. David Herbert Williams of Halifax, son of the late Most Rev. David Williams, Archdeacon of Halifax and Mrs. Williams of London, Ont.

### TRAVELERS

Hon. R. C. Matthews and Mrs. Matthews have returned to Toronto after spending two months abroad. Lady Langellier is leaving Quebec to spend some time with her daughter, Mrs. H. Estup, in Florida.



Worn by the girl whose mind  
is on her work, not her feet.

*m. Whocke* Shoes

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*Simpson's*

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Appearing every evening at the Supper Dance Room, in the Main Dining Room, as well as the Saturday Afternoon Tea Dance.

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ALICE MANN

THE ROYAL YORK  
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Relieve Soreness in Three Minutes This Easy Way



1. The moment you feel a throat irritation, crush and stir 3 "ASPIRIN" Tablets in 1/2 glass of water. Gargle twice. Do not rinse mouth.
2. If you also have a cold, take 2 "ASPIRIN" Tablets and drink a full glass of water. Repeat, if necessary, according to directions in package.

If you want the most astonishing and quickest relief from sore throat, you have ever experienced, just do this:

Crush and dissolve three "Aspirin" Tablets in 1/2 glass of water for use as a gargle.

Gargle your throat *three* times with this medicated mixture, holding the head well back to allow its going deep into the throat.

That's all! Relief will come almost instantly. For the "Aspirin" will act like a local anesthetic to ease throat pains. And, at the same time, will soothe and quiet irritation.

People by the tens of thousands are combating sore throat this way. Doctors endorse it. And scientists acclaim it as perhaps the most effective gargle yet discovered — for it provides a medication, and it takes *no time* to combat a sore throat.

If you have a cold with your sore throat — take two "Aspirin" tablets with a full glass of water at the same time you gargle.

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Each day, before you go to bed, use the invisible protection of Yardley Lavender Complexion Powder—and then, adding charm to charm, finish with fragrant Yardley Lavender Perfume.

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Odors  
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Sani-Flush is manufactured especially to clean toilet bowls. It removes rust stains. Lustrous film and incrustations are banished. The porcelain gleams like new. Even the hidden trap that you can't reach any other way is purged and purified. Odors go. Sani-Flush is also effective for cleaning automobile radiators (directions on can). Sold by grocers, drug, and hardware stores. 25 and 15 cent sizes. Made in Canada. Distributed by Harold F. Rutledge & Company, Ltd., Toronto.

**Sani-Flush**  
CLEANS TOILET  
BOWLS WITHOUT  
SCOURING



DR. GUSTAVE LANCTOT

## PEOPLE WHO DO THINGS

CHIEF FRENCH ARCHIVIST

ALTHOUGH Dr. Gustave Lanctot, Chief French Archivist of the Dominion Archives, Ottawa, is a full-fledged lawyer, having been called to the Quebec Bar 28 years ago, he has never practised his profession due to the fact that an enthusiasm for research into the romantic history of his early French ancestors in this country far exceeded any leanings he may have had towards Blackstone. His training in legal lore, however, has stood him in good stead when examining into the governmental administration of Canada under the French regime, upon which subject he is a foremost authority. It was a thesis entitled "L'Administration de la Nouvelle France" that gained him the degree of Doctor of Literature from the University of Paris, and he has published numbers of authoritative works on conditions in this country when it was governed from Versailles. He won both gold and silver medals for papers on historical subjects in the Confederation Jubilee Competition in 1927 and was awarded the David prize in 1930. His life of F. N. Garneau, the well-known French-Canadian historian, is included in the "Makers of Canada" series and he has contributed widely to historical publications both in Canada and France.

A native of St. Constant, Que., Dr. Lanctot was educated at Montreal College and the University of Montreal, where he graduated with the degree of Bachelor of Laws in 1907. The following year he studied at the London School of Economics and in 1909 he entered Oxford University as a Rhodes scholar from Quebec. While at that noted seat of learning he captained a hockey team comprised of Rhodes scholars, which after defeating an English team at the famous Prince's rink, London, made a triumphant 21-day tour of the continent, winning 17 games and piling up a total score of 246 goals against 17. This was the forerunner of many such teams from Oxford that have since done much to popularize hockey on the continent.

In 1912 he was appointed to the staff of the Canadian National Archives, being promoted to the position of Chief French Archivist in 1919, and in that capacity he has been an able lieutenant to Sir Arthur Doughty in assembling much valuable material relating to the early French settlement of this country. Joining the Canadian Expeditionary Force in 1915, Dr. Lanctot after serving with the 73rd Highlanders of Montreal, was recalled from Flanders to serve on the staff of the Canadian Eyewitness and in 1917 was appointed a member of a Canadian Special Mission to France, with the rank of major. He recalls a memorable interview he was privileged to have with Field-Marshal Joffre, who, adopting similar offensive tactics, he employed at the Marne, rebuffed his interviewer with countless questions on that latter was not the least bit wiser at its conclusion, although he had the satisfaction of hearing the distinguished soldier express his sincere regard for the military prowess of the Canadian troops.

Dr. Lanctot represented Canada at the International Congress at Rio de Janeiro in 1922 and at Brussels in 1923, and the Colonial Historical Exhibition at Paris in 1930. He is president of the Canadian Folk Lore Society, French secretary of the Canadian Historical Society and a Fellow of the Royal Historical Society and the Royal Society of Canada.

### MERCIFUL JUSTICE

HIS HONOR Chief Justice Harvey, of the Supreme Court of Alberta, may temper justice with mercy on occasions, but he has been too long on the bench to allow himself to be swayed by emotional appeals. Last month a prisoner, convicted of obtaining money by false pretences in an effort to launch a syndicate to market health pills, sought a reduction of a two-year sentence and offered to read a poem by himself, entitled "Supporting the Underdog," in proof of his contention that with a little more experience he could earn his living by writing poetry.

The learned jurist hastily declined the offer, but pointed out that the prisoner-poet would have ample time to perfect his act in the two years he must serve in jail, more especially if he kept himself fit by taking his own health pills regularly.

### TRAVELERS

Major and Mrs. J. K. Gillespie, Miss Cynthia Oakley and Master John Gillespie, of Toronto, have left to spend the winter in Nassau.

Mr. and Mrs. Robert Magor, of Montreal, are spending a few weeks in Edmonton, Alta.

Mr. and Mrs. Robert Messervy, of Toronto, have moved into their new residence in Hudson Drive.



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# THE BANKS AND THE AVERAGE MAN

## SECTION IV

# SATURDAY NIGHT

TORONTO, CANADA, NOVEMBER 23, 1935

## HOW THE BANKS DO BUSINESS

Banking May Be Complex, But It Is Not Mysterious—  
A Simple Exposition of Banking Functions

BY B. K. SANDWELL

A PROMINENT Canadian banker commented not long ago on the curious difference between the attitude of the public towards banks and towards loan companies. Both institutions lend funds to borrowers; both are indebted for those funds to other persons and institutions. The difference is mainly in the length of term of the loan and the nature of the security taken for it. The loan company is however seldom subjected to criticism either for its charges, the procedure which it employs to secure repayment, or its selection of the properties upon which it will and will not make loans. The bank is constantly criticized in these and a score of other respects. "The reason," adds this Canadian banker, "would appear to be that the public understands the mortgage transaction, and can see the connection between the various parts of the procedure, while the process of banking is looked on as a mystery. Any organization whose operations are not understood is feared, especially if it be successful, and fear always breeds suspicion."

This is a fairly accurate statement both of the public attitude towards banking and of the basic reason for it—accurate enough at any rate to suggest the extreme desirability of removing as much as possible of the "mystery" attaching to the banking business in the public mind and substituting a fairly clear idea of the nature of the process of building up a deposit and loan business. It is in the hope of giving some little assistance towards this end, that SATURDAY NIGHT is publishing this collection of articles on different phases of the complex process of banking. For it is a complex process, and it would be misleading to suggest otherwise. It is much more complex and more difficult of understanding than any other type of financial business, both in its own internal workings and in the effect which it produces upon the economic life of the community which it serves. But it is also of vastly more importance to that economic life than any other financial institution; and now that governments are constantly being called on to make far-reaching changes in the whole nature of the banking structure, and even to abolish it altogether and turn over its functions to a government bureau, it is certainly the duty of every intelligent citizen to familiarize himself with the nature of banking and the function which it performs in our economic system.

### BETWEEN LENDER AND BORROWER

IN ONE sense the function of the bank and the function of the loan company are identical. Each acts as an agent to bring the owner of funds and the would-be borrower of funds together, or rather to enable the owner of funds to lend them to the borrower without having to "get together" with him, to arrange terms or to scrutinize security. The difference is that the bank lends for a short term, measured in months, on the security of goods usually in process or in transit, while the loan company lends for a term of years on a security consisting of permanent real estate; and to compensate for this difference in the type of loans there is a corresponding difference in the terms on which the two institutions take money from those who entrust it to them. The loan company obtains most of its funds upon a promise to repay at a fixed date some years in the future. The bank obtains practically all of its funds upon a promise to repay on demand or at very short notice. (In both companies, it must not be

forgotten, a substantial portion of the total funds is the property of the shareholders, and cannot be withdrawn until the enterprise is wound up. It is this which largely guarantees the outside creditors of each company from loss by mistaken lendings or other mismanagement.)

The loan company therefore exists to provide fairly long-term loans to assist the owner of real property who desires to control a greater amount of such property than he can personally pay for. The bank exists for the purpose of making loans which assist in bringing into the possession of the borrower raw materials and commodities which, with or without processing or manufacturing, will be sold and turned into cash within a reasonable period.

In both cases there is a lender, an intermediary agency (bank or loan company), and a borrower. In both cases the agency does all the work of arranging the loan, inspecting the security, effecting the ultimate collection; it also gives the original lender an assurance of repayment which the real borrower could never give, by substituting its own credit (greatly strengthened by the contribution to the total fund made by the shareholders) for the credit of the borrower; and it further conveniences the lender and borrower alike by allowing each to make the size and duration of his transaction suit his own requirements. If there were no intermediary the man with \$5,000 to lend for five years would have to find a property-owner who wanted \$5,000 for that exact period, and would then have to do all the work of investigating the security and arranging the loan himself. Similarly, if there were no intermediary, the man with \$50 which he does not expect to need for two months would have to seek somebody who wanted just that sum for just that time—and even then he would not enjoy the privilege which the bank gives him, of changing his mind and drawing out his \$50 tomorrow. (He might of course try to sell the borrower's note promising \$50 in two months, but he would probably have to take quite a loss on the transaction.)

### BANK DEPOSITS AND MONEY

BUT this brings us to the most vital of all the distinctions between banking and every other type of financial business, the distinction which is the cause of all the misunderstanding and "mystery" about banks in the public mind. For the odd thing about banking is that owing to the short term of the loans made by the banks and to the large reserves of cash and highly salable securities which they hold, a bank is able to promise to repay, and does repay, the money which is entrusted to it, not at some future date or after some specified period of notice, but *on demand*. (It is true that theoretically a large part of the deposits of the Canadian chartered banks is withdrawable only "after notice" of a month or less; but this notice has not been enforced for a generation or more and it is almost inconceivable that it ever would be. Patterson in his "Canadian Banking" says that these notice deposits "are in practice treated as demand deposits, as notice is never demanded under normal conditions.")

This fact, that bank deposits can be withdrawn or transferred "on demand," has some very strange, not to say startling, effects. It has the effect, for example, that a right to obtain money from a bank

(Continued on Page 30)



PIONEERS THESE? Yes but not in the ordinary sense. These are pioneers of commerce—leaders in the rush of '98. In short, they are staff members of a great Canadian bank going in to establish a branch in the Klondike. In one of these canoes was the scales on which much of the gold, which hardy men won from this wonder camp, was weighed.

## BANKERS FINANCE THE FARMER

Over \$400,000,000 is Annual Turnover in Bank Loans  
For Agricultural and Livestock Industries

BY CLARENCE HODGE

Editor, The Farmer Magazine

BANKS and the Farmer! Oh, yes—The Lions and the Lambs! Have you heard of a banker in the last four years that wasn't described as stony-hearted or a farmer that wasn't poverty-stricken?

If you have, it was only in a whisper—the popular conception mustn't be disturbed.

Is it not about time we came down to earth? Time we recognized that banks perform every day a vitally necessary function for the farmer, and that farmers as a group are producing and spending more actual wealth than any other single group in the community? That neither one can get along successfully in this country without the essential services each renders the other?

Approximately \$400,000,000 was the amount of credit extended by the banks to the agricultural industry as a whole during the past twelve months.

With the aid of this credit—and it was not "social credit" either, but based on hard cash placed in the banks by their depositors—the farmers of Canada were able to produce and market during the same period products to the value of well over \$700,000,000. This was the farmers' contribution of new wealth to the national welfare and was ample security for the credit extended by the banks.

Do these figures, which can be amply supported by reliable statistics, look as if the banks had stopped loaning money or that the farmer is on the road to the poorhouse?

### SOURCES OF FARM REVENUES

But for what products did Canadian farmers receive this \$700,000,000 and for what purposes did the banks advance \$400,000,000 in credits?

The full list of farm products is far too long to be included here, but those for which the Dominion Bureau of Statistics estimates farmers received a gross revenue of \$10,000,000 or more in 1934 were as follows:

Field crops	\$337,884,000
Farm animals	99,438,000
Dairy products	181,966,000
Fruits and vegetables	39,145,000
Poultry and eggs	44,267,000

At various points in the production and marketing of all these products, credits extended by the banks played a vital part. Just what volume of credit was required for any particular commodity was not recorded, but the total, as given me by a recognized banking authority, was, as already mentioned, over \$400,000,000, and it was used in a great variety of ways.

### FINANCING OF WHEAT MARKETING

THE function of the banks in the marketing of wheat, for instance, is well known. They advance money directly to the farmer for the purchase of seed; indirectly, through the implement manufacturer, for the purchase of tillage and seeding implements; directly again for the purchase of binder twine and other harvesting costs, finally, indirectly, to the elevator company or wheat pool for the purchase of the grain at the elevator. With the issue of this new loan, money previously advanced to the

farmer is repaid, releasing funds to be used as credits for transportation and other agencies essential to the movement of wheat all along the line until it is finally sold to the ultimate consumer.

In all these transactions of growing, harvesting, transporting, storing and milling of wheat, extra money is required for comparatively short periods of time by the various agencies concerned. To provide this money, to collect and re-distribute it, is one of the essential services rendered by the banks. Without it, it would be virtually impossible for the growers to produce or the marketing agencies to sell and deliver crops of wheat such as are commonly grown in the west.

### CREDIT IN LIVE STOCK PRODUCTION

EQUALLY important to the farmer is the use of credit in the production and marketing of live stock.

The cattle rancher in Alberta, unless very well established, requires a loan from his bank to enable him to carry his herd of cows until their calves are ready for sale as stockers and feeders. The buyer who purchases calves requires credit until he can resell them on a western stockyard to a buyer from the east. The eastern buyer secures credit to enable him to make the purchase. The Ontario farmer who buys them from this buyer, in turn secures a loan from his bank. He feeds them over winter and repays the loan when the cattle are marketed in the spring.

Thus four different loans have been required—each repaid in turn, before the cattle are fattened for the market. If they are exported to the British market, several similar loans, each larger than the last as the cattle increase in value, are necessary to enable Canadian farm animals to appear as beef on British tables. Without such credits, created from the wide collection of cash deposits with the banks, the live stock business could never have achieved its present volume.

Somewhat similar services, to a greater or less degree are rendered by the banks in the producing and marketing of all farm commodities. Not always in direct loans to the farmer but in loans to marketing agencies that enable them to buy and pay cash for the farmers' products or to provide facilities for their storing and processing before their final sale.

The Canadian Co-operative Wool Growers is an organization familiar to every sheep raiser. They receive on consignment for grading and sale several million pounds of wool every year, drawn from every province in Canada. The bulk of it comes to their grading and storage plants in a period of three months in the spring. It is sold out gradually to the woollen mills or for export throughout the balance of the year. By depositing warehouse receipts for the wool as it comes to their plants, with the banks, they are able to secure funds with which to make advance payments to the farmers up to approximately two-thirds of the current market value of the wool. As the wool is graded and sold, and payments received from the mills, this bank loan is repaid.

When all the wool is sold, final payments are sent to the farmers who consigned the wool, less the costs

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BUYERS ON THE SMITHFIELD MARKET in London, looking over Canadian apples. Growers of these apples are paid with funds supplied by the banks on the security of bills of lading, the banks making collections through their London office or agents on delivery of the apples to British wholesalers.



# PITFALLS IN DOUGLAS SYSTEM

## Social Credit Theories Fail to Withstand Analysis Despite Complexities of Their Chief Exponents

BY ROBERT CRAMPTON

J. MAYNARD KEYNES, who is considered to be one of the first three or four monetary experts alive today, recently is quoted as saying that he does not understand the Douglas Social Credit theories. The rest of us may be pardoned therefore if we confess a degree of bewilderment in the complicated formulae which are the basis of the Major's plan for ridding the world of the ups and downs of business.

The most earnest of the social-credit advocates will urge one to approach social credit in a receptive and sympathetic mood. If then one is unable to understand what the Major is driving at, it is suggested that it all be taken on faith and that our Parliament simply give the theorists carte blanche to go ahead. This, it would seem, is putting social credit on the plane of a religion. But in its stupid way, the world is practical and it is likely to continue to refuse to infuse an economic subject with mysticism.

Yet with a Canadian province enthusiastically endorsing a politician who translates Douglasism into dollars-per-month for every good citizen, and with a dozen or so members of our next Parliament elected on pledges to endeavor to put the plan in effect across the Dominion, it behooves all of us, no matter how obtuse we may confess ourselves to be, carefully to examine what is proposed.

### WHERE AMBIGUITY IS DEFENSE

"WHAT Everybody Wants to Know About Money" is a big little book edited by G. D. H. Cole, economist of the Socialist school. A chapter therein is devoted to "Four Monetary Heresies" and the place of honor among the four is accorded Major Douglas. The author of this chapter is H. T. N. Galt, lecturer in economics at University College, London, and it hardly can be suggested that he, either as an Oxonian or as a colleague of Professor Cole, is prejudiced in favor of the banking interests. Mr. Galt's explanation of the apparently growing popularity of the Douglas theories is of more than passing interest:

"It may seem surprising that a theory which is at once so ambiguous and so involved should have found so much support. But, apart from the attractions offered by the cure, — the popularity of the Douglas view is in all probability to be explained precisely through its ambiguity and complexity. For each supporter there is an interpretation which suits his intelligence and his knowledge. For the critics there is not one but a collection of heads to cut off. An opponent may destroy to his own satisfaction one of the interpretations, but another will appear in its place. Unless he be gifted with exceptional patience and enthusiasm he will turn away in helpless indignation before the complete repertoire is exhausted. Other reformers appeal to the same sentiments: rapidity of technical change, the mysterious and wicked power of the banks, the ease with which crisis and depression may be surmounted if only the way is used, but none have the defensive weapon against national criticism: the ambiguous statement, so perfectly at hand, so efficiently controlled as the followers of Major Douglas."

When whole books have been written in explanation of the Douglas theory, he is a bold writer who attempts in a limited space to summarize the Douglas theory and the prescription, especially if one is writing as a critic. But perhaps it is safe to say that the premise from which Major Douglas builds his argument is a belief that there never is enough money in the hands of consumers to pay all of the costs of producing goods for consumers. This deficiency would be vitally important, if true.

The alleged deficiency comes about, it would seem, because, for one thing, production machinery is constantly being added to and with interest on investment and depreciation charges there are permanent additions to costs, without permanent and paralleling increases in purchasing power.

In support of this utterance, Major Douglas has evolved his famous "A plus B" theorem. At the risk of further over-simplification of Douglasian complexities, it may be said that the Major classifies all payments made to outgroups in the form of wages, salaries and dividends as "A" payments and all payments made to others for raw materials, bank charges and other external costs as "B" payments. Now he contends that the purchasing power of the public consists solely of "A" payments, while costs include also all "B" payments. Therefore, it is obviously impossible for the public, having in its possession only the "A" money, to purchase goods the costs of which are "A" plus "B."

### THAT FAMOUS "A PLUS B"

IF IT is argued by people who question the validity of Major Douglas' contention that the public does receive benefit from "B" payments because, in the last analysis, all "B" payments at some stage or another are for wages, dividends, etc., the social credit exponents will contend that, even if this be true, the money is all spent before the goods are ready for the market. It still would be a fact, they argue, that when the goods are finally on the market the "A" money then available would not equal the costs of the goods because final costs are "A" plus "B."

It is submitted that both of these contentions are fallacious. In the first place, the production of goods is continuous, therefore the "B" payments made today for goods to be placed on the market two months hence are available for purchase of goods, production of which was started two months ago. It is, of course, true that when production runs ahead of the digestive powers of consumers, as happened in 1929, it takes a time for demand to catch up with production, and production must slow down to allow consumption to catch up. But to argue that "A" payments are not available for the purchase of consumption goods is to suggest that Vancouver cannot have as much sunlight as Toronto because the sun rises three hours later in the Far West.

The second fallacy is the argument that the total

price which the consumer pays is the total of all "A" and all "B". The vital point that has been ignored is that costs are telescoped with the result that the final price paid by the consumer is only the retailer's cost for the goods — his "B" payments — plus his "A" payments, his cost of operation including profit. The Douglasites apparently overlook the fact that the retailer's "B" payments include all of the "A" payments made right from the time the wool, for instance, was grown, spun, weaved, handled by the wholesaler and sent to the retailer.

### PROBLEM OF DEPRECIATION

PROFESSOR GAITSKELL admits that Major Douglas may have made one minor contribution to monetary theory in that he suggests that the setting aside of reserves for depreciation tends to create a deficiency in purchasing power (assuming of course that the quantity and velocity of money remain unchanged) unless there is steady spending of the depreciation fund.

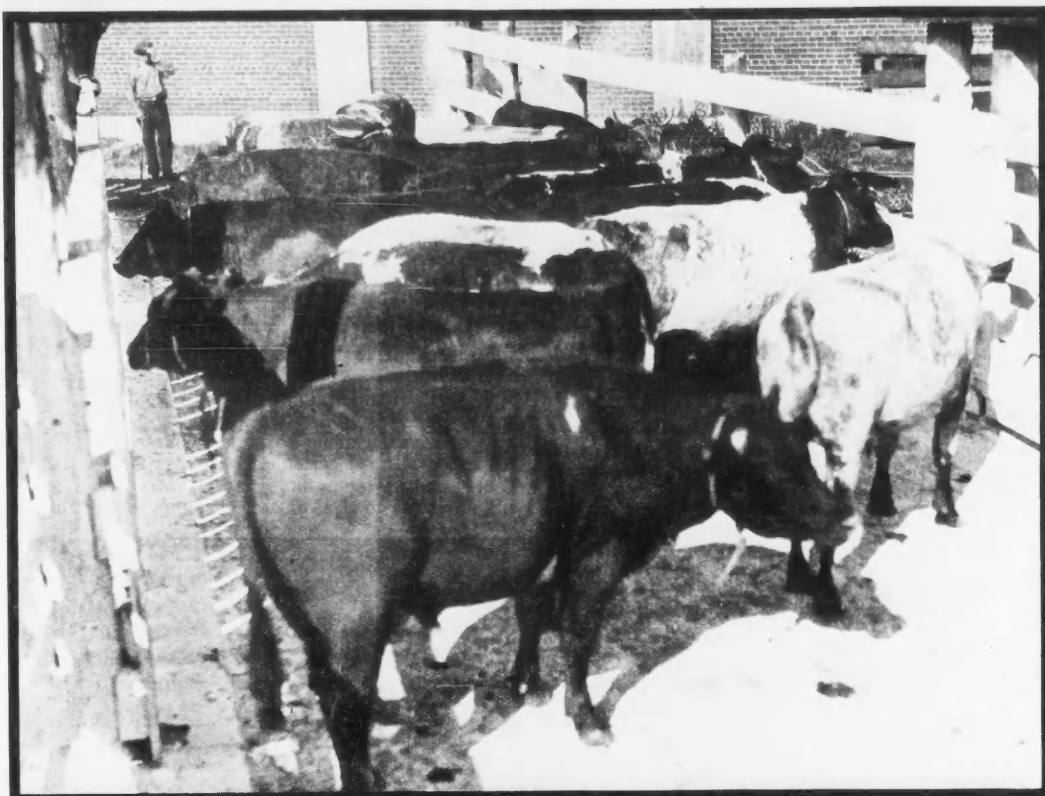
For an obvious reason which will be apparent in a moment, we would have to deny Major Douglas even this minor contribution to monetary theory. But it is readily admitted that even a cursory study of balance sheets of our best-financed corporations in the last five years will reveal that, while depreciation has been regularly charged, replacements have not been as regularly taking place. In other words, depreciation is an item of cost of production which is not distributed to the consumer public, so that the prices of finished goods total more than the total of money in the country for the purchase thereof.

The amount of depreciation may also have something to do with it and rulings of collectors of income tax have brought a condition where depreciation is charged, on occasion, when even prudent management does not deem it necessary. An instance comes to mind: In the steel industry it is customary to charge depreciation at so much per ton of production, on the practical theory that the machinery of production wears out with use, not merely with age. But the income-tax people a year or two ago ruled that, unless depreciation was actually charged in the books of the company at the rates allowed under the act, the depreciation could not be claimed for income tax purposes. So to save income taxes in times when plants are not being operated at capacity, some companies have charged off more earnings to depreciation than are necessary. But does this mean a deficiency in purchasing power — an aggregate price of this company's product greater than this company's contribution to the purchasing power of the public?

### COMPANY RESERVES NOT STERILE

THE answer, it seems to this writer, is that the only way in which this situation could create a deficiency of purchasing power among the public as a whole would be by taking the cash money in the depreciation account and locking it up in a safety-deposit box. Money and credit, so long as it is in the banking system or invested in securities, is not sterile. The purchase of a new machine for a factory will make work — purchasing power — for producers of the machine. Money invested in a government bond because the company is not ready for the machine is enabling the government to pay wages either to regular staff or in special public works. Depreciation reserves, even though not immediately used for replacement, are not sterilized.

Another instance concerns a public utility company which, in the last three or four years, has consistently earned its dividend and the amount actually spent for renewals, but not at the full rate of depreciation allowed by statute. This corporation has gone through this period with no lessening in cash, but appropriating the full depreciation has meant merely the transfer of funds on its books from general reserves to depreciation reserves. The corporation has not, however, created additional purchasing power, as was normally the case, so that its purchases of government bonds have been less, and its bank balances have grown no greater. If this company earned its full dividend and full depreciation and yet required less than full depreciation allowance for actual replacements, it would be tend-



A LOAD OF FEEDER STEERS in a Western stockyard. Stock of this kind is sold in the fall to a farmer in Ontario for finishing purposes. Their purchase in many cases is financed by a loan from the bank, repayable when the steers are sold as finished stock in the spring.

ing to create an excess of purchasing power. The Douglasite will not admit that, under the present system, it is possible so to create an excess of purchasing power.

The allegation that banks create credit out of nothing, and the further contention of the Douglasites that as commercial banks — and many central banks — are privately owned there is a private monopoly of a public function, are essential points which should be examined in any critical analysis of Douglasism. But this writer will not deal with this phase of the subject because it is already discussed elsewhere, notably in the leading article by B. K. Sandwell.

### NO CURE FOR DEPRESSIONS

THE cure which Major Douglas offers for the alleged difference between what the public has to spend and what the goods have cost to produce is to determine what are "just" prices of goods offered by retailers. Customers then would be permitted to purchase these goods at a discount from the market price. On presentation of evidence of sale, the retailer would be compensated by the nation by the grant of additional credit, or issue of additional money.

There is also the proposal that all individuals be granted monthly credits which would be, it is said, the monetizing of the assets of the nation — cashing in on the "cultural heritage" of the people.

To offset the criticism that these proposals would, if put into effect, lead to a progressive inflation which inevitably would cause a rise in prices, it is stated that the national credit authority would be empowered to reduce or withhold altogether consumers' credits, and citizens' credits, to prevent this very thing. Some critics have pointed out, however, that the withholding of credits would have the same effect as would the withholding of credit under present conditions. That booms and depressions would still be experienced is more than probable, and there is no evidence that the control over prices and money issues exercised under the scheme would be any more effective, and would be enormously more complicated, than the present system of control through such quasi-government institutions as central banks, publicly or privately owned.

### PRACTICAL DIFFICULTIES INSUPERABLE

BUT in the opinion of the present writer, the whole Douglas scheme is not worthy of serious consideration because of the practical difficulties of policing the entire retail price structure. This continent has seen in the last two or three years the most monumental attempts of modern times to control prices, and regiment industry, for the benefit of producers. That each (with one apparent exception) has failed, has not been due to lack of effort on the

part of hundreds of competent and earnest men who have been striving to the best of their ability to determine what are just prices and to get all branches of an industry to maintain these. That each has been a failure (we have seen some examples in Canada) has been due in the last analysis to the impossibility of controlling competitive primary production and markets.

It remains to consider Alberta. On August 22, a party headed by William Aberhart, B.A., swept the old government out of office. The voters were willing to give the Aberhart brand of Douglas social credit an opportunity of giving each good citizen \$25 per month in a non-negotiable certificate.

There are various difficulties in the way. Suffice here to mention only two of the many legal difficulties. The first is that the Dominion Government controls all matters relating to money and it is a crime for any person, other than a chartered bank, to circulate any medium which is intended to be used as money or as a substitute for money. The second legal difficulty is that any employee or other creditor has the right to demand that his employer pay for his services in legal tender. Mr. Aberhart has allowed it to be known that he would have all payments made in Alberta in the form of script. Such institutions as railways and banks would, it appears, be expected to pay their employees in script and to hand the equivalent money over to the government.

### 120 MILLION—OR TEN?

IT IS estimated that the payment of \$25 per month per good citizen will require \$10,000,000. The ordinary person will multiply \$10,000,000 by twelve months and arrive at the figure of \$120,000,000 which Mr. Aberhart's provincial treasury would have to raise. The raising of this sum seems to be an insuperable difficulty for the reason that Alberta people already consider themselves overtaxed to raise the \$15,000,000 which is presently required to meet the expenses of provincial government.

But Mr. Aberhart is sure that all he will be required to raise will be the first \$10,000,000. After that, the province will have the funds available because there will be extremely rapid spending of the social-credit certificates. Many people will have something to spend who have not had it for a long time. Others without quite the same urge to spend will be anxious to get rid of certificates which may depreciate rapidly in purchasing power. A dollar bill will be as good next month as this but people will not be so sure that a social credit certificate will have a value of \$25. Gresham's law will be a factor in the spending.

Mr. Aberhart thinks that business will be accelerated to such an extent that the \$10,000,000 will flow back to the provincial government before the next payment is due. It reminds one of a street scene as depicted by a movie projector speeded to several times its normal rate.

### TAXATION IS ONLY WAY

THE fact is that Mr. Aberhart cannot get his \$10,000,000 back into the provincial treasury without taxing it back. The non-negotiable certificate is not any good to the retail merchant, for example, if he cannot get from the state credit house another non-negotiable certificate which he can use to pay his bills. So, while the certificates will undoubtedly pass rapidly through the credit house, they cannot remain there as an asset of the state. On the contrary, they must be a liability.

In all private and governmental dealings between Alberta and the outer world — still blundering in darkness — the orthodox type of money must be used. This, say these foothills Utopians, will be easy because Alberta is an exporting province. But the hundred million bushels of wheat which Alberta can expect to sell this year is or has been owned by the farmers who grew it. It is doubted if these hard-working farmers will be ready to sell all this wheat to Mr. Aberhart's government, to be paid for in social-credit script if they can sell it, as at present, for coin of the realm or its equivalent. Except in the improbable circumstance that the grain growers of Alberta voluntarily co-operate in the scheme, the only way in which the government can get control of these export assets for the payment of outside debts will be to tax it out of the possession of its rightful owners. Such taxation, on the scale necessary to take care of Alberta's financial problem created by the social-credit triumph at the polls (in addition to the problem which the government has inherited from its predecessors) would amount to confiscation.

All of this is clear to everyone who has not fallen under the spell of a dreamer who has become politically powerful.



A MODEST QUEBEC FARM, illustrative of the home of the average type of general farmer who, frequently without realizing it, benefits from the use of bank funds in the marketing of his products and in many cases finances his production through direct loans from his local banker. —Photo by "Jay".





THIS IS NOT A TRAPPER'S HOME. This picture a branch of a great Canadian banking institution established in a young mining camp. It may be accepted that vault facilities were limited to an iron box; yet any depositor had the assurance that the whole assets of the great bank guaranteed the safe keeping of his funds—or his silver and gold.

## BANKS MAKE COLLECTIONS EASY

Business Turnover Exceeding Total Deposits Financed  
By Convenient Negotiable Instruments

BY W. A. MCKAGUE

TO MOST people, a bank is a place for keeping money on deposit. To a lesser number, it is a place from which money can be borrowed. Nearly every customer uses its cheque, draft or money order services for transfer of funds, however. And from the viewpoint of the firm selling goods or services over a wide area, the collection facilities afforded by our banks are of paramount importance.

It is, in fact, interesting to recall that the practice of settling a debt through the medium of a banker is older than that of depositing money at interest. The Romans were familiar with the "bill of exchange"; much of the trade which had then developed between Rome and Greece, instead of being settled for by shipment of money or goods, was cleared through dealers in bills of exchange; thus a Roman, buying something from Greece, could pay a local dealer for a bill or order drawn upon some other dealer at Athens. In the middle ages, when the custom had developed of leaving precious metals in the safe-keeping of goldsmiths, a payment could be made by an order drawn on whatever the customer had at his goldsmith's; such orders later passed from hand to hand as "bills of exchange," establishing a practice which became one of the corner stones of banking. It was some time later that the goldsmiths found they did not need to keep all the precious metal on hand; they could lend part of it at interest, or set up a credit to be used as desired by the borrower, while in turn they owed the borrower what he had deposited with them. It was only through the expansion of loans and interest earnings, that the banks later became able to pay a small rate of interest to the depositor, and set about the business of developing deposit accounts which has been such an important feature of banking in modern times.

So it has come about that the individual citizen, and the business firm, both make the setting up of a bank deposit account, or of a bank credit, as the first step in their arrangements to pay their accounts and debts. The customer who, in making payment to another party, does so by merely sending through the mail or delivering a cheque drawn on his bank account, is adopting a method of payment which is obviously the easiest for him, and which is at the same time most convenient to the creditor. There is no handling of notes or coin in various denominations, and no danger of loss by fire, theft or otherwise, since the cheque made payable to the creditor is valueless to anyone else. Both parties to the transaction are making use of facilities which have been developed through centuries of banking and exchange. It makes little difference whether debtor or creditor live next door to one another, or in different countries.

### EFFICIENT MACHINERY

OF COURSE there are limits beyond which ordinary banking does not go, in the collection of accounts. The banking system merely provides machinery by means of which a transaction can be completed when both parties to it are willing and able to complete it. It includes such a pointed reminder as the presentation of a draft. It does not, however, provide anything to coerce the unwilling debtor, and is therefore not a substitute for the collection or follow-up system of the creditor concern, nor for the collection agency which handles this class of work. It has nothing to do with the taking of a case to court for enforcing collection. An important point in commercial practice, therefore, is that credit, including both ability and willingness to pay, must be examined by the firm considering the sale. And it is also well that after delivery of the goods has been made, any questions in regard to their quantity or quality, or terms of sale, be adjusted before the settlement takes documentary form.

The cheque—best known of all instruments of payment—has been described by an authority as "a written order drawn upon a bank by a depositor, requesting the bank to pay on sight a certain sum of money to the order of some person or corporation named on the face of the cheque. The cheque is so convenient that it has become the principal means of payment and the most used medium of exchange.

Money is used by a large majority of fairly well-to-do people only for payment of small items, and cheques are used by these people almost exclusively for the settlement of larger amounts. The use of cheques for payment by the consumer is rapidly increasing. Among the wholesale trade the cheque is used in practically all settlements" (quoted from Credits and Collections, by Ettinger and Golieb). A cheque may pass from hand to hand by endorsement; i.e., it is a "negotiable instrument." Another interesting point is that while the cheque is first of all an order on a bank account, even if there are insufficient funds in the account, and the bank refuses to pay it on that score, the cheque itself becomes the direct promise of the maker; that is, if you receive a cheque which is returned "n.s.f.," you can at least hold it as an acknowledgement of the debt, and a promise to pay it.

To avoid any doubt as to the sufficiency of funds, a debtor may have his cheque certified, or "marked" by his bank, before remitting it. The bank stamps the cheque accordingly, and notes the item in the customer's ledger sheet, so that it may not be drawn a second time. Such a "marked" cheque becomes the bank's own obligation; the bank has certified that the funds are available in that customer's account, and that the necessary amount has been reserved for payment of that particular cheque. Such a cheque, therefore, is as good as cash except in the remote possibility of the bank itself failing between the time of the cheque's certification and its presentation. Firms selling goods or securities, and other creditors, naturally like such cheques, and may require them from customers about whom they are not sure, before delivering the goods.

### USE OF BANK DRAFTS

SIMILAR in status to the marked cheque, but less common in Canadian practice, is a "cashier's" cheque drawn by the bank on itself, and chargeable to the account of the one desiring to make the payment.

A bank draft is an order drawn by one bank on another bank (usually at a different place) to make a payment to the party named in the draft. This type of document is possible because of the interrelations of banks, keeping deposits with one another which may be drawn upon at any time, and balances being adjusted or cleared from time to time. For instance, a Canadian bank, with headquarters in Montreal or Toronto, has not only its own system of branches in Canada and in a few cases elsewhere, but also has a connection or agency arrangement with a bank in every important city in the United States, Great Britain, etc., and is therefore prepared to provide a customer with a draft payable in any of these points. So far as the public are concerned, the bank draft is practically cash, enabling the transaction to be completed at once at each end; the amount is immediately deducted from the buyer's account when he secures the draft; it is added to the account of the receiver when he presents it at his own bank. A cheque transaction, on the other hand, is not completed until, after being received and deposited by the creditor, it has been returned and deducted from the maker's own account. Certification merely anticipates this process.

The ordinary commercial draft or bill of exchange is a widely used means for collection of accounts in Canada. It is an order drawn by the creditor party on the debtor, to pay a specified sum of money, either "at sight" or at a specified time, such as 30 days or 60 days, in the future. Customarily, a time draft is presented at once to the debtor or "drawee" for his acceptance to be written on its face, which then makes it his promissory note. What actually happens is about as follows: A firm ships goods to a customer, and at the same time "draws" on him for the amount, handing the draft to its bank and thereby releasing the funds at once (subject, of course, to collection charge, and to the possibility of the draft not being met by the customer). The bank then forwards the draft to its own branch or agent at the point where the buyer is located, where it is presented to him. If it is a sight draft, he is expected to meet it at once through his local bank

(Continued on Page 31)

## SERVING OUR MUNICIPALITIES

Two Important Aids Provided By Canadian Banking  
Institutions—Expert Advice Solves Problems

BY JAMES CARRUTHERS

CONTRACTS covering the addition to its power plant of two new units were awarded recently by a prominent Ontario town not far from Toronto. The cost of construction runs into hundreds of thousands. Municipalities usually do not have adequate cash balances available for such purposes. In addition to the town's need for additional power facilities, consummation of the project will benefit the community and the Province greatly. It will call for the employment of a substantial force of laborers and technicians. It will provide much needed work for a large electrical manufacturing concern—will provide business for other material manufacturers whose products will be required to complete the job, thus increasing factory employment.

The question arises in connection with projects of this kind—who will provide the required capital until such time as adequate funds can be secured from the sale of a debenture issue? Right at present the public are hesitant about buying municipal securities except where the record is clean, and the job cannot wait. The answer involves a phase in the drama of Canadian banking about which little is heard. And the case is a typical one.

The Canadian chartered banks are called upon to render two specific types of service to municipalities. They are constantly making advances to cover current expenditures and also to take care of the servicing of outstanding securities issues. As security for the loans they are given an assignment on incoming revenues. But the taxes frequently are not payable for months after the loans are made. Furthermore, taxes are hard to collect these days, and total collections are often far below the amounts anticipated. Municipal authorities, moreover, have often been known to employ bad business methods. Sometimes political exigencies rather than sound business principles dictate policies. These are some of the problems facing the bankers in this particular type of business.

The other main type of service banks render to municipalities is the making of capital loans for construction projects. These are temporary advances and are secured in the meantime virtually by the general credit of the municipality, until a bond or debenture issue is available for hypothecation. This type of business has usually been fairly satisfactory from the banks' standpoint, but construction costs frequently run far beyond estimates, and in these days the ultimate disposal of municipal securities, as already stated, is a problem. Of course there is a considerable safeguard in the fact that authority to go ahead with such projects, as well as permission to sell an issue of securities, must be obtained in most provinces from the Department of Municipal Affairs. The banks confer with this Department in many instances with regard to the best policies to be pursued by the municipalities. In addition to the direct loans, the banks, of course, at all times have large amounts invested in municipal as well as Dominion and provincial securities.

### OF NATIONAL BENEFIT

IN THE aggregate this continuous service rendered to municipalities from coast to coast involves large amounts and is a profoundly important service from a national standpoint. Loans by the chartered banks to cities, towns, municipalities and school districts, based on monthly averages, totalled over \$118,000,000 last year. In 1932 they exceeded \$130,000,000. In the latter year this represented nearly 10 per cent. of the amount of total bonded indebtedness of all the Canadian municipalities. Furthermore, statements of the assets of the chartered banks show holdings of Canadian municipal securities and British, foreign and colonial public securities which in 1934 amounted to over \$139,000,000. In 1933 the figure was \$163,000,000 and in previous years only slightly less. During the war period this total exceeded a quarter of a billion dollars.

Other perhaps intangible but none the less important services are rendered by the banks to municipalities day by day. They take the form of financial advice and suggestions rendered in the con-

duct of municipal affairs. As already intimated, municipal officials have been known to swerve from accepted orthodox business principles. They have promises to fulfill—a showing to make, which may not always be in the best interests of economical administration. It has been easy in the past to spend more public money than was available to spend without excessive borrowing.

In the latter connection the banks, as a matter of good business from their own standpoint, have carried on a great deal of missionary work from which tangible results are slow in becoming apparent. They have helped municipal officials to draw up budgets and have done much towards keeping them within these budgets or as nearly so as possible. Taxes in the past have usually been payable in lump sums near the end of the year. Sometimes the banks have induced the municipalities to advance the due dates and make payment easier by breaking up the total into several monthly instalments. In one instance six monthly payments commencing in April have been inaugurated. It is subject to verification that in this way more taxes are collected. The temptation to use the tax money for other purposes when there is a whole year to gather it together, has been greatly reduced.

### SPUR TO COLLECTIONS

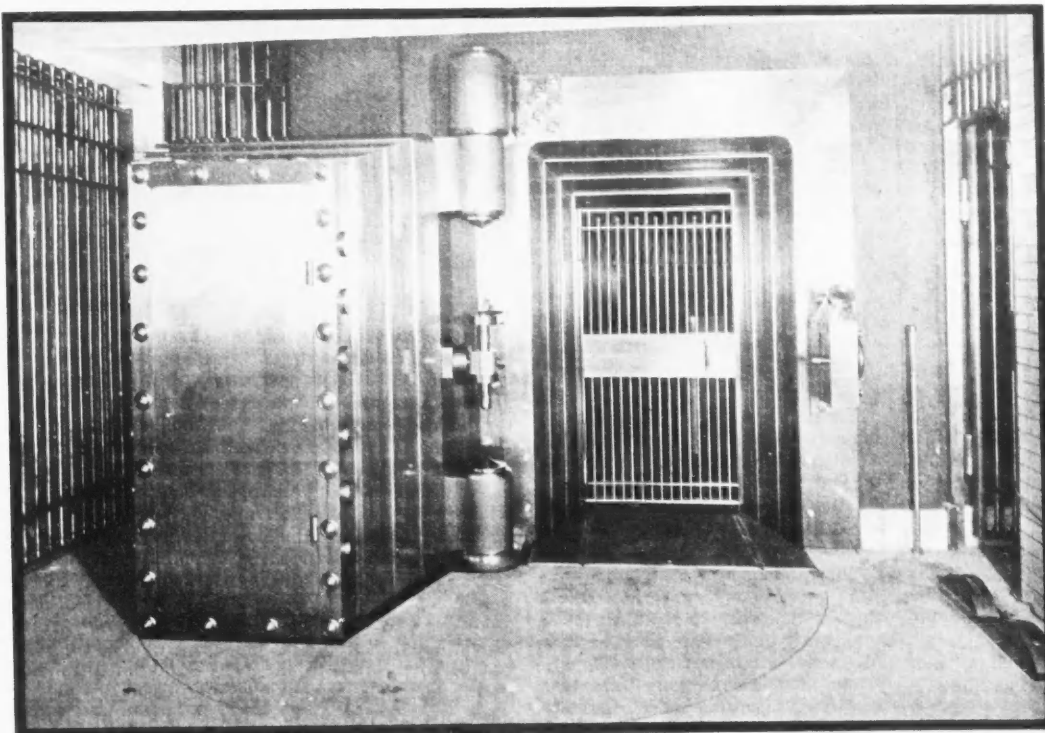
THE banks have also sought to educate the financial officers to become tax collectors in a true sense rather than merely tax receivers. The old method was to gather such amounts as could be secured without too much difficulty, and borrow the rest. This policy is giving way. The banks have encouraged the tax officers to pursue the recalcitrant taxpayer more aggressively, and also to develop other sources of revenue so that total borrowings will be less. They have endeavored to systematize the whole process by the use of card index and other methods. They have urged a more rigid enquiry into the reasons for non-payment. All this is having beneficial results not only in increasing total taxes raised but in inducing the municipalities to live within their means.

Growth in the number of municipalities in financial difficulties has become a grave problem and the solution is not entirely apparent. Unsound financial policies and over-spending have been complicated by steadily decreasing revenues due to lowered income resulting from depressed business. Also the reduced volume of capital that is still available for investment has become more cautious as a result of the combination of conditions outlined.

All this places an additional burden on the banks as the only source of available funds remaining. What has happened is illustrated by such situations as that of East Windsor. A report issued by the Committee of Supervisors appointed under the Ontario Municipal Board Act of 1932 shows that at the end of 1934 bank borrowings of that municipality totalled \$819,281. This was gradually reduced and the amount of cash on deposit increased steadily until at the end of 1934 net borrowings amounted to only \$101,119. The Supervisors instituted a policy whereby no bank loans could be incurred for current expenditures. All of the latter had to be provided out of current tax and other revenues. Meanwhile tax arrears were liquidated as rapidly as possible.

A similar situation is disclosed in the case of the Town of Sandwich. Bank loans have been reduced principally as a result of the liquidation of tax arrears, from \$523,942 at the end of 1931 to \$164,554 at the end of last year. Expenditures were cut sharply from \$895,747 in 1931 to \$552,994 at the end of 1934.

In addition to these outstanding cases there are still a few municipalities in default, and these are being carried by the banks. In such cases every effort is being put forth by the banks to reduce indebtedness and to put finances on a sound basis by encouraging revenue increases and the reduction of expenditures. If there were any grounds for the charge sometimes heard in the past that the banks loaned too liberally to the municipalities, and are not without blame for the situation which developed, such grounds have apparently been removed.



THIS TREASURY VAULT DOOR of one Canadian Bank Head Office (and others like it) gives its protection to the depositor in that tent branch in a new gold camp just as it gives protection to the depositor in the banking house a floor or so above. Thieves might break through and steal the deposits taken in that tent—although there is no such theft on record—but if they did all the assets of the bank would stand behind this loss at the one frontier branch.



# MOVEMENT OF GRAIN FINANCED

## Canadian Banks Provide \$100,000,000 to Move Western Crop by Extending Credits to Business Men

BY HENRY SOMERVILLE

THE financing of the movement of the grain crops of Western Canada in the fall of each year is one of the remarkable achievements of modern banking. Magnitude of seasonal trade variations was one of the features of Canada's economy which impressed the Macmillan Commission on Banking. This is most evident in the latter months of the year when the golden harvests of the prairies have to be moved to their distant and various markets. There have been years when the wheat crop alone has been nearly half a billion dollars in value. There have been days when one railway company has loaded 3½ million bushels of wheat in 2,439 cars between dawn and dark. City folk who get their pay envelopes every month or fortnight or week do not easily realize the position of the western farmer who gets his pay only when he gets his crops, once a year. Most of these crops are gathered in one short season of the fall and then there is a huge increase of monetary turnover, made possible, as the Macmillan Commission noted, only by the unusually elastic system of currency and a very highly developed banking organization.

An average western crop requires something like \$100,000,000 to move. Additional bank notes, to the amount of \$15 or \$20 millions, are required in the West between August and November. These figures were given by a Saskatchewan governmental commission on wheat marketing in 1921 and they are sufficiently representative of present conditions to be quoted for purposes of illustration. Such a big jump in demand for money would naturally suggest a condition of acute stringency and high rates of interest. Stringency and high interest rates used to be features of the crop moving season in the grain regions of the United States. Western Canada has long enjoyed smooth financing because the Canadian currency system has long been endowed with peculiar elasticity.

At an early period the banks had the privilege of issuing notes up to the amount of their paid-up capital. This was a generous provision and it secured ample currency until the phenomenally rapid development of the West in the first decade of the present century. The limits of elasticity were then being reached and after the financial crisis of 1907 a law was passed in 1908 which extended the limits of elasticity by allowing the banks, during the crop moving season from October to January, to issue emergency currency in the form of bank notes up to 45 per cent. of the combined capital and reserves of the banks. This emergency currency was fixed at the rate of 5 per cent. per annum. The emergency currency provision has now ceased to be operative. Elasticity is secured in other ways. Under the Finance Act of 1923 the banks have been allowed to borrow currency in the form of Dominion notes from the Minister of Finance, and these borrowings have ordinarily been at a cheaper rate than 5 per cent. In the future the necessary elasticity will be secured by the administration of the Bank of Canada. The majority of the Macmillan Commission were inclined to the view that under the Finance Act of 1923 there might be undue elasticity. It is possible to have too much of a good thing.

In modern monetary systems currency is the foundation and bank credit is the superstructure. It would be absurd to say that the superstructure is more important than the foundation but it is true that the largest financial operations in crop moving are neither department of industry are nowadays accomplished by currency, not by currency. Speaking only of the financing of crop moving, not of crop growing, banking accommodation is extended to the grain elevator, elevator operators, commission merchants and truck buyers rather than to the farmers.

### FARMER WANTS CASH

THE first movement of crops from the farm to a local elevator. As a rule the farmer is anxious to get cash for his grain, as soon as it is threshed. He therefore sells his produce to the grain company operating or using the elevator. Normally the grain will not reach the final consumer for months. Indeed, an hour has become much too long in these days of acute currency stress that some may wait years before it gets to the final. But the farmer wants cash down. It would be long before the waiting period, and however many times the wheat changes hands before a miller takes it to grind into flour, every seller wants cash down. The purchasers seldom have the cash to pay unless the bank provides it for them. The function of the banking organization is to keep the supplies of cash and credit revolving as quickly as possible so that the limited resources will do the maximum work.

The farmer selling to a country elevator is paid with a grain ticket, which is practically equivalent to a cheque drawn by the operator on a bank. There are 5,100 country elevators in the prairie provinces. There are 800 country branches of the banks. If there is no branch bank near a particular point where the elevator operators do business, the banks will entrust funds to some reliable local storekeeper who will encash the grain tickets. The grain ticket states the quantity, grade and value of the crop delivered, and, as mentioned, the ticket can be exchanged for the stated amount of cash at the nearest bank or bank agency.

The farmer in the case stated is a seller, not a borrower. The bank, if lending at all, is lending to the elevator operator or grain company using the elevator. The bank lends to the operator against the warehouse receipt for the grain as security. While the bank holds this receipt the grain cannot be removed from the elevator without the bank's authorization. But this statement is subject to the qualification that unless there is a special agreement for storage in a special bin the depositor or shipper of wheat is content with a claim not to the physically identical grain he has delivered but to grain of the same grade or quality. The important point is that when a bank holds a warehouse receipt the grain covered by that receipt is under the control of the bank.

When the grain leaves the country elevator for

the railway truck the bank, if still interested in the grain, surrenders the warehouse receipt and accepts in exchange a Railway Bill of Lading as security for its loans. Of course if the bank loans have been paid off the bank is no longer interested in documents, but ordinarily those who hold the grain at this stage are not able to dispense with the aid of the banks. The grain companies use their own capital but this does not begin to meet the needs of crop movement financing. The usual practice is for the grain companies, before the season begins, to arrange with the banks for the lines of credit they expect to require. They draw on this credit only as and when required. Interest is charged from day to day. Loans are nominally demand loans, but the banks do not ordinarily demand repayment until the grain is sold. Whenever the grain is sold the bank is immediately repaid, though it may have to finance the new purchaser.

### AIDS INTERNATIONAL TRADE

AS THE first movement of the grain is from the farm to the country elevator, the second may be said to be from the country elevator to the Head of the Lakes. We do not forget the great importance of the Port of Vancouver in recent years but for our financial exposition the eastward movement may be taken as typical. Bank finance being still required for the grain at Fort William, the bank takes as security the Terminal Warehouse Receipt instead of the Bill of Lading. Just as at every sale of grain the bank is repaid, so at every change of custody the bank takes a new form of security. These are not mere changes of form; they are changes of quality of security. A Terminal Warehouse Receipt, for example, is higher security than a local Warehouse Receipt because at Fort William the grain is more readily deliverable; it is practically already on the international trade routes; it has survived various risks of loss and damage in transit of which a lending bank must take account when accepting it as security; moreover, at the terminals the inspector's certificate of grade gives a more definite assurance of its value.

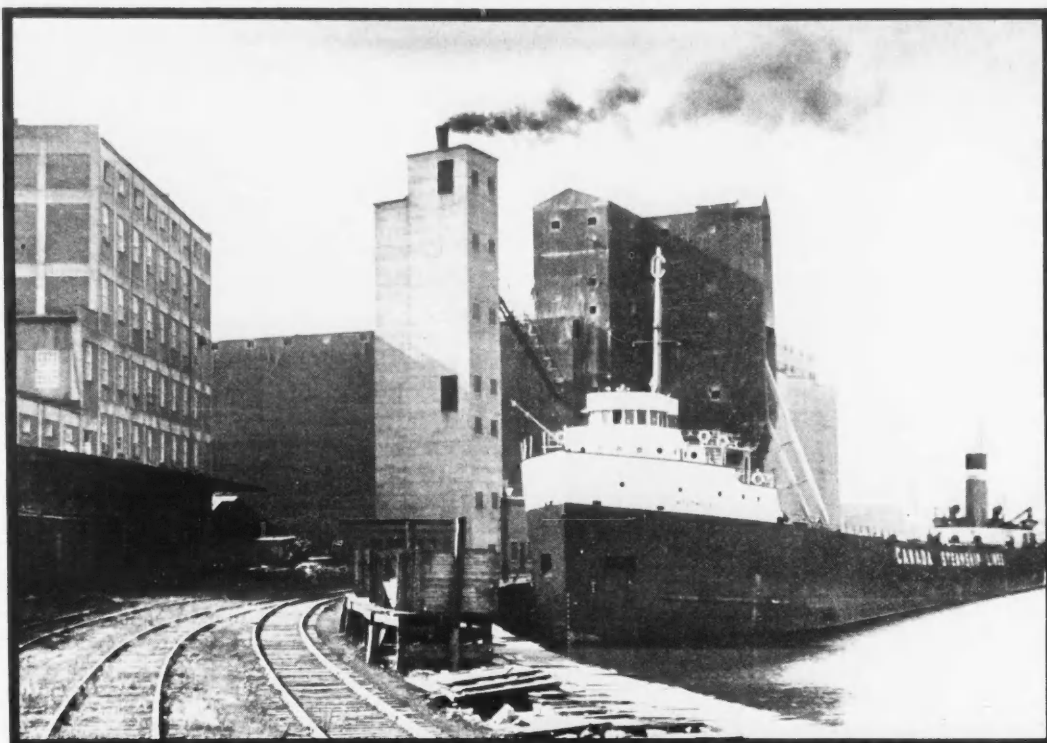
The final financial operation, so far as Canadian banks are concerned, may commence at the seaboard when the grain is shipped against an Ocean Bill of Lading. An Ocean Bill of Lading will have a sterling value, it will be payable in sterling by a London financial house. It could be sent to London for sale, but most likely it is sold in the foreign exchange market of New York. The Canadian bank gets Canadian dollars from New York for a sterling bill. This is quite a good example of the familiar triangular co-operation of international trade. The grain being out of Canada on the high seas and the Ocean Bill of Lading sold, the Canadian financing is completed. But probably British financiers are carrying on the process until the miller ships flour to the bakers!

In our example it has been assumed that the farmer was a seller to the country elevator. This need not be the case. The farmer may desire to hold the wheat or other grain in the hope of price appreciation or for some other reason. But he cannot leave his crop on the farm and he cannot finance his holding himself. He therefore stores his grain in the elevator, paying charges, of course, for storage, and he receives a storage ticket. This storage ticket the bank will accept from him as security for a loan. A bank usually lends 60 per cent. of the estimated value of the grain but the loan value varies from 50 to 75 per cent. If the farmer desires to ship his grain to the Head of the Lakes he can borrow against a Bill of Lading instead of the storage receipt, and, similarly, he can borrow on the security of a Terminal Warehouse Receipt if he is still holding the grain when it is stored at Fort William.

Holders of wheat often sell for future delivery. In this way they protect themselves against falls in price. They are, therefore, a better risk for the banks and their credit standing is improved. They can obtain by way of loan a higher proportion of the value of the grain because their "hedge" has made the value more definitely assured.

The subject of this article has been the financing of crop moving. Of course the banks do very much also to finance the farmer in his crop growing. Banks will lend to farmers for almost any farming purpose, for the purchase of seed, living expenses and wages, maintenance of buildings, purchase of equipment and stock, etc. As security the banks will accept a variety of assets, subject to the restrictions of the Banking Act. The business of banking cannot in practice be conducted without reference to factors which will never appear on a balance sheet. It is proverbial among bankers that the security for a loan depends on three C's, Character, Capacity and Collateral, and in business with the farmer the collateral of these is emphatically not collateral, for the pledged assets must in most cases be left in the possession of the borrower.

Whether it is in the financing of crop growing or crop moving any student of the practice of the banks will be struck by their concern for two factors, facilities for customers and security for themselves. Banks have the strongest possible incentive to lend to the maximum, for it is only by lending that they make their profits. But they cannot afford to neglect any precautions against bad debts. With all their precautions they do not avoid bad debts entirely, and when a bank makes a loss on a loan it is just as irreparable as a bad debt suffered by any other kind of business. The supposed power of the banks to "create money out of nothing" does not help them in the least when a debtor fails in his obligations to them. Those who are deceived by the sophism of "creating money out of nothing" should read the Rules and Regulations published by the banks for the guidance of their managers and observe the overmastering concern of the banks for the security of the money deposited with them. "Safety First" is the traditional banking slogan and we do not have to look far from our own country, or our own day, to see examples of the havoc created by departures from right principles.



GRAIN ELEVATOR AT MIDLAND, ONT., lake side storing point for wheat from the prairies to be made into flour for Ontario and overseas consumers. Bank funds financed in many cases the growing of the wheat on Western farms; its purchase at Western country elevators; its transportation to lakehead at Port Arthur; its storage at Midland, and, finally, its milling into flour by Eastern mills.

—Photo by "Jay".

# ALL FISHERMEN AIDED BY LOANS

## Benefit Sometimes Indirect But Great Fish Industry and Lonely Bait Fisherman Alike Helped

BY GORDON RUTLEDGE

HUGH MUNDEEN, lonely bait fisherman of Hollybrook, Fortune Bay, is probably unaware that he is helped in any way by the Canadian chartered banks. The very name, Banks, means to him a great fishing ground. It does not bring to mind a far-flung financial institution. Yet this worthy but very poor Newfoundlander is beholden to the Canadian banks, and to the depositors of these banks. Of course, the man is an almost infinitesimal factor in the great fishing industry which Canadian banks serve in many ways; but because of his very smallness his case is interesting.

Down in Lunenburg a fishing schooner, of the class made famous by the Bluenose, is preparing to go to the Grand Banks, some 500 miles away, for one of her three trips of the year. The owners have put up some money to get the craft in shape; but ready money may be scarce. So these owners (one of whom almost certainly is the skipper) go to the bank manager, talk over their expectations and their needs, and on these expectations of a catch—on their character as men and as fishermen—they get an advance of cash (perhaps \$1,000) which is to enable them to buy needed supplies of salt, ice and bait.

Bait—that is where Hugh Mundeen of Fortune Bay comes in. Hugh sees wide horizons but his own viewpoint is narrow. However, he knows the way of the Cod. He realizes that the Cod may lack the gleam of intelligence but yet knows what it wants, and that it wants what it wants when it wants it. Hugh understands that the Cod will bite at Herring in spring, at Caplin in summer and at the rather disgusting Squid in the fall. So Hugh fishes for, or collects, these fish in season; and when the Lunenburg schooner comes in he has the acceptable bait ready for sale and for it he gets cash—perhaps \$25.00, perhaps \$50.00—but cash. Now the Canadian branch bank doesn't turn over the \$25.00 to Hugh, but it did advance it to those in charge of the schooner upon the understanding that some money would be paid for bait—just as other dollars had to be paid for salt, for dories, for ice in the summer season.

This is perhaps the simplest illustration of credit extended through the Canadian Banks to facilitate the great fishing industry. Because of the very simplicity of the proceeding it is interesting to reflect on considerations which must be in that Lunenburg bank manager's mind as he makes the loan. He thinks of the price of fish. The present price is not so good but what of the future? What of these sanctions under consideration against Italy? Italy is a great consumer of codfish. Sanctions may hit at the Canadian and Newfoundland fishing industry as well as at Italy. During the war he remembers prices for codfish skyrocketed. Of course, a good part of the huge price went for insurance, for transportation, but big prices were received by the fishermen. Then, overnight, prices fell.

### CONFIDENCE JUSTIFIED

THUS the bank manager looks ahead and looks back, and with this knowledge advances his depositors' money to this borrower, in the hope that when the note is due the catch of the borrower will enable repayment.

The catch—what will it be? Price is important, and yet price presupposes something to sell. Will the borrower have a catch? Amateur fishermen—in spite of their versions—have sometimes been suspected of coming back empty-handed. If this borrower runs into foul weather—then what of the loan?

More than normal hazards are involved in this simple loan; yet this advance, experience has proved, probably will be repaid on the return of the schooner from the Grand Banks. But should ill fortune necessitate an extension of the note, any danger from this is averted by the variety of loans made all over the Dominion. Were the bank a local one—as were the two banks operating in Newfoundland prior to 1894—it might be that a severe price reverse, or an inferior catch, or both, would bring difficulty to the financial institution; but it is one of the merits of the Canadian branch system that any such contingency would only adversely affect the showing of the loaning branches. The bank as a whole would be unperplexed—able to carry these deserving but unfortunate fishermen borrowers till a better catch, or

more dollars per quintal, enabled them to repay.

The case of Hugh Mundeen makes it very clear that Canadian banks do help the smallest man engaged in fishing get the rewards of his labor. A tracing of the wider and perhaps more common method of financing fishing operations gives further evidence of this.

In St. John's, Newfoundland, a merchant (really an importer and exporter) buys large quantities of supplies. His turnover is not rapid and he needs credit to pay for his purchases. This credit he gets from his bank. What security he gives may vary. It may be in part the goods purchased. It may be other real assets—but always added to the security is the character asset—character in the generally accepted sense and in the sense of a history of sane and successful business dealing.

Now at some outport—Burrin, for example—is a merchant in touch with the Newfoundland fishermen. This merchant gets his goods from the St. John's importer, on credit; and this merchant supplies the needs of a number of fishermen—again on credit—on the expectation of their catch.

Weeks pass and the fisherman returns, his schooner loaded with cod. These, after curing, he turns over to his merchant. The merchant ships to the importer and exporter in St. John's. This large merchant probably pays for the fish in cash, knowing the market, or he may send the fish for sale on consignment. If he does this, the bank again helps in this operation, handling drafts.

Suppose the St. John's Water Street merchant pays cash for these fish, how does he do it? A cancelling process. The bank really takes the fish and credits the importer's account with their worth. If this Water Street merchant's debt to the bank is \$4,000.00 and the value of the fish \$6,000.00, his debt to the bank is settled and he has \$2,000 cash. The fish, however, came to the Water Street merchant from the merchant at the outport. So the St. John's merchant makes delivery of the funds to the outport merchant. He does this by cancelling the merchant's debt of, say, \$1,600.00 and sends cash, or credits him with \$1,600.00. Then the outport merchant has a clean-up with the various fishermen who brought in a catch. Say each of ten fishermen has sold \$600 worth of fish. Each of these ten owes his merchant \$500. So this debt is paid off, and the balance of \$100 paid the fishermen.

### BIG AND LITTLE BENEFIT

AT EVERY step there is credit, either directly or indirectly.

All this applies to the Maritimes and to Newfoundland. The problem on the Pacific Coast is different. There the fisheries are big business. Lines of credit from the banks they certainly have, and the working capital thus secured makes possible (or easy) the outfitting of boats, the payment of wages to fishermen and to workers in the canneries. But this is the kind of financing it is accepted the banks do. The financing of the smaller operations of the east coast are less generally appreciated.

The building of the fishing schooners is another place where the Canadian banks play a part in advancing the fishing industry. The proceedings, of course, vary, but typical is this:

Two, three or four associates around Lunenburg or Chester, decide they will buy a new schooner. Why do they want it? Why are many cars bought? Is it because the old car won't run? No, pride, keeping up with the Jones's. Those who go down to the sea in ships like to go down in fine ships just as the automobilist likes the striking new models. So the decision to buy is made—the old schooner sold to some buyer, perhaps in Newfoundland, and the contract given for a new boat.

Now with boats, as with houses, payment is made on a regular basis—the first payment when the keel is laid and ribs in place, and so on. With this contract the builder goes to his bank and gets advances for material and wages. The keel is laid and payment secured from the buyers. Then the loan is settled, though another may be taken almost immediately pending the earning of the second payment. Here again the money of the depositor has provided a fund which the banker can and does advance where his trained judgment warrants.



# YES, BANKS HAVE MADE MINES!

From Earliest Days Short Term Loans on Basis of Industrial Credits Saved Many a Venture

BY B. F. TOWNSLEY

GOLD mining, swivel chair economists aver, is man's futile process of transferring the precious element from the hidden vaults of nature to other equally hidden vaults of our banks again to pass from sight if not from knowledge. However this may be, certain it is that banks play an intimate role as vendors of service along Canada's far-flung mining frontier. In the pioneer days of a camp, the bank's unpretentious tented or log-cabin stand is a familiar and welcome sight. As the camp develops so do the banking accommodations and services, up to and beyond that triumphant day when those who advanced the money for development cash their first dividend cheque.

When that polyglot caste stampeded to the new-found Yukon placer gold fields at the close of the last century, one of the Canadian banks was quick to join the motley horde. In went accountants, assayers, and certain equipment including a melting furnace, and thus the miners had available complete banking facilities on the new frontier. From that primitive service of weighing and smelting the gold dust from the placer miner's poke, mining and banking have been like Siamese twins, as each has reached new pinnacles in our economic development.

## A LOCAL EXAMPLE

WHEN the great silver deposits of the Cobalt area were brought into production in 1904, a new era of mining was ushered in which led to the discovery of the Porcupine and Kirkland Lake gold fields a few years later, and launched Canada as a major gold producer. Not with the gold balances and melting furnaces that characterized the primitive placer gold operations in the Yukon, but with vitalizing credit did the banks again follow the pioneer; and Cobalt, with its veins rich in silver from the grass roots, found the banks an indispensable ally, as the famous Coniagas mine, richest silver producer from a single forty acre claim, has reason to remember.

When W. G. Trothewey made his lucky strike which was later to be known as the Coniagas mine, he, like so many others since, had no funds to finance development. His partners, too, were financially embarrassed, but they scraped together \$4,000 and gouged out the first carload of ore from the mine's rich vein. But there was no smelter or purchaser for the ore closer than New Jersey, which meant shipping costs and embarrassing delays ere the ore could be assayed and settlement effected. With its funds exhausted, the quartet of mine owners found refuge at the local bank, which extended credit against the deferred smelter settlements and thus advanced the Coniagas on its spectacular way to be a payer of \$12,000,000 in dividends from its capital of few dollars but much faith and toil.

## SOME CURIOUS HISTORY

WHEN N. A. Timmins was on the first round of his ladder of mining fame as the pioneer operator in the Cobalt camp, the banks were, perhaps naturally, in a quandary about the problems confronting the shippers of ore, and some demurred at making loans. Mr. Timmins tells how officialdom of a bank in Toronto refused a \$10,000 loan on a shipment of silver ore which ultimately gave a smelter return of over \$50,000. This incident proved costly to the cautious bank, for it lost a good customer when a rival was quick to recognize the loan security of ore in transit. Thereafter the banks of the new town of Cobalt broadened their services to mining by financing many a shipment of ore for a young producer low on working capital, just as one had for Coniagas, and finally another for Noah Timmins.

The pioneer bank, however, was soon to receive new demands, and a wide departure from general banking practice came when the Farmers' Bank financed what was later the famed Keeley silver mines, by the purchase of its bonds. This venture of the bank's president, Dr. Beattie Nesbitt, had a far-reaching influence on mining finance, for the Keeley mine was slow to give up its riches of silver, and became one of the contributing causes to the Farmers' Bank's closing its doors to clamoring depositors. In assuming the role of a mine operator the bank had stepped from the beaten path of finance, but it was at least another mile-post in proclaiming the interest of Canada's banks in mining. Numbered among seemingly worthless assets of the Farmers' Bank, the Keeley mine was auctioned off to the highest bidder and thus fell into experienced hands. The irony of the bank's venture was manifest a little later when the new operators of the mine advanced the old workings fifty feet and opened up a bonanza vein and later paid millions in dividends; all of which proved no solace to the creditors of the Farmers' Bank, with its misguided mining activity.

## BUILDING UP PRODUCERS

FOLLOWING the experience of the Farmers' Bank with the Keeley mine, banks have, in addition to their common services, evolved a policy of accommodating the mines with loans, but restricting these to a point where the security is such as to offer no more than normal chance of loss. They leave the broader angle of the financing of mines to that capital which may properly be more venturesome. But while all this is true, and while of course it was true of the other banks before the Farmers' Bank's ill-advised flier, yet the history of mining development is also a history of loans, made by men of knowledge and understanding, which have been the very life-blood of producers struggling to build up working capital.

Consider a few instances of loans and services to mines—regular bank loans and bank services, of course, but illustrative of the co-operation in the new areas of Canada and in this comparatively new field of endeavor:

A Patricia gold producer, 120 miles from the railway, took in all its supplies over a summer water route in order to reduce heavy transportation

charges. This meant a heavy inventory and a capital outlay that the young producer could not itself finance, so a bank was consulted. While recognizing that the winter's supplies 130 miles in the bush were scant security, the bank also realized that profitable operations were assured as long as the property could be kept in production. A loan was made covering costs of these supplies, essential to production, with the result that before summer transportation opened the next year the mine had produced enough gold to repay the loan and had built up a working capital sufficient to finance the next year's supplies. This mine now numbers among the dividend-payers.

A Manitoba gold producer, in an isolated area, was confronted with a lack of local banking facilities, but a system of credit was instituted which might cause an ardent social credit exponent to weep for joy. It was arranged with this bank that the wages should be paid twice monthly into the workers' accounts at Winnipeg and that the worker might draw cheques against this, payable at par within the Province. (As there is small demand for currency, with the mining company's store ready to extend credit to the workmen, the principal demand for money at the mine is for the purpose of paying poker debts. The psychological influence of the absence of money is that the cheques are limited in number. A brake is placed on the activities of the ever-present bootlegger. Even the poker debts have a way of cancelling off to a surprising degree, so very little money changes hands in the mining camp, and a high percentage is saved.)

## BACKED BY SOLID WORTH

THE heyday of placer mining in British Columbia is over, but this poor man's method of winning gold still supports small groups who continue to pan along the once flourishing streams. The working capital of these miners is a pick, shovel and pan. Again the local bank is the ready purchaser of the miners' gleanings and its gold scales are an essential piece of bank equipment. These small individual purchases of gold are accumulated until a worthwhile shipment can be made to the mint, and it is not an uncommon sight for the bank inspector to find small bottles of gold, carefully labelled with their purchase price, standing with the currency.

Quite a contrast to the early banking facilities on some of the Western United States banking frontiers were the Canadian banking institutions. In this connection a story will bear telling. In an early Nevada boom, the one-street mushroom town boasted all the usual enterprises. A gambler, looking over the situation, observed that only a bank seemed to be lacking, and thereupon set up shop, fortifying himself behind the crude counter that served as a desk, and announcing in big letters on his window front, "Bank." The new town teemed with activity. There was a steady stream of depositors from the moment the doors opened, and the new bank flourished to such an extent, so the story goes, that its proprietor decided to put \$25 of his own money into the new venture. Interesting, this, and indicative of a situation if not literally true; provocative also of this thought, that the Canadian bank, in tent or shack, may be in flimsy quarters but has behind it the solidity of the whole service of which it is a branch. Its gold might be stolen, but the depositors would not lose. The whole resources of the great institution stand behind.

## TRANSITION PERIOD

THE established procedure in financing mining properties has been to issue further capital, generally by a reorganization of the mining company or by forming a new operating company. Large mining companies themselves have had an increasingly important role in financing mining properties near the production stage.

Mining finance is admittedly in a transition period, with sounder policies and higher percentages of public money accruing to the treasury. Financial organizations of high standing, bond houses and money lenders are in keen competition to secure the privilege of financing mining properties near the production stage, bearing favorable engineer's reports.



AN EARLY BANK IN COBALT—1905. Through this office, and those of other banks, assistance was given the men who made the Cobalt camp into the great silver producer it was. The youthful figure on the left is S. H. Logan, who has recently been elected in succession to Jackson Dodds as President of the Canadian Bankers' Association.



KIFFE LAID—At this stage first payment is due from those who ordered shipment; thus the contractors are able to reduce or repay a bank loan secured to finance material and labor.

While the chartered banks, almost without exception, evidence growing interest in the mining development of the nation, it does not seem probable that they ever will enter the field of mining finance to the extent that some would like. Their custom with regard to mining cannot, in the last analysis, differ from the custom with regard to industrial enterprises. Elsewhere in this series of studies of Canadian banking there are detailed discussions as to how far and in what manner banks legitimately can assist industry, so it need not be gone into at length here. But it may serve to dispel some agitation for wider use of bank funds in mining if it is noted that in an industrial undertaking it is the function of a bank to help provide working capital for short terms, when and if needed.

## GUARANTEES NECESSARY

LAND, buildings, machinery, other equipment and at least a portion of the working capital of a company should be provided by the owners of the business, whether the owners be few or a great body of shareholders. With private investments thus providing the foundation of a business, the permanent capital, such a business as a going concern legitimately can expect a bank to assist in the financing of purchases of raw materials and to carry the loan for a few months until raw materials have been sold to the customers, whether those customers be other manufacturers, wholesalers, retailers or ultimate consumers. Expressed in another way, the function of a commercial bank is to supply funds which when put to use by the borrower will be represented in his balance sheet by current assets, never by capital assets.

The same relationship must also always exist between mining companies and Canadian chartered banks. The prospecting, development, installation of plant and every other phase of mining up to the point of actual extraction of ore cannot be financed with funds of depositors in chartered banks unless such advances are, as they may be on occasion, guaranteed by other individuals or companies with ability to meet their guarantees. But once a mining company has come into production, its own capital can be legitimately supplemented with bank money in the period between the time ore is above ground and it is sold by the mining company to the mint or other customer.

This somewhat bald explanation of bank policy is not intended to convey the impression that the managements of chartered banks are lacking in sympathetic understanding of mining problems or are unappreciative of the great asset which mining as an industry is to this country. The earlier portion of this discussion has cited instance after instance where mining enterprises have been aided with bank money to the profit of both the bank and the mine. But while a bank in lending its funds from day to day is subjecting itself to business risks, it should not in the ultimate interest of the country (not to

mention the interest of its own depositors and shareholders) take a speculative risk. The bank, for one thing, does not seek a speculative profit.

The growing number of mining men on bank boards reveals that the banks are increasingly aware of the value of the mining industry. Many of the vacancies in recent years have been taken by men whose life has been inextricably involved in mining. While there is no suggestion that there will or can be any departure from a commercial bank's policy as regards fixed and speculative investments, there is no doubt that mining will, to an even greater extent than in the past, find banks viewing mining as an established industry entitled to banking accommodation on bases and terms and yardsticks similar to those applied to any other industrial enterprise.

## PAYING WORKERS

Various Banking Services Facilitate Payroll Distribution

BY JULIAN MONTROSE

ONCE upon a time the relationship of employer and worker was reasonably simple. The worker practically handed over his life to his lord or squire, to be managed as the lord or squire might seem fit. He fought for him when ordered to do so, without any foolish pondering upon the justice of the cause. He worked for him in field or forest as ordered in times of peace. The destinies of whatever progeny he might have were as much at the lord's disposal as were his own. In compensation for all this he expected, and received, nothing in the way of money (of which even the lord had very little), but a great deal in the way of clothing, of food, of protection, and of recognition as a member of the "great family" even though he might be seated very far "below the salt."

No financial machinery, it is obvious, was necessary to carry out the business of remunerating this mediaeval worker for his services to his employer. Even in much more recent days, but still prior to the advent of machinery, when the cross-roads blacksmith shop was the forerunner of the mighty motor and farm implement plants of today, sundown on a Saturday night was the signal for the blacksmith to open his leather pouch and reward his helpers with the few coins which made up their weekly stipend, and both he and they would have been surprised and puzzled if any bank had sought to have a hand in the operations.

But in this age of commercialism, of large scale enterprise and of great armies of wage-earners, the technique of paying off thousands of employees once a week has become a complicated and exacting function, in which the banks now play an important role. The form of the transaction, the method employed to effect the transfer, will vary with the nature of the industry and the number of its employees, but the bank is the intermediary in every instance.

The closest link with the leather pouch of the cross-roads blacksmith of former days is the black satchel of the company paymaster, which still in many cases travels to the bank on the morning of pay-day and is filled up with the requisite bills, dollars and dimes which a little later will be passed through the wicket at the company's office as each man steps forward at the sound of his name.

An improved modification of this system is the method by which the bank increases its service to the employer by putting the pay of each wage earner, carefully counted out, in an individual envelope bearing his name, which tallies with the company's records as furnished to the bank. In this instance the pay-off clerk has only to hand each man his envelope as he steps up to the wicket to identify himself and sign the official receipt.

## SOME EXTRA AIDS

THESE systems have the advantage—so far as it is an advantage—that the pay is available for spending as soon as it is handed to the worker. Unfortunately this very fact is apt to have a bad psychological influence upon large classes of workers with whom an urge to spend is the inevitable result of the presence of ready cash in the pocket.

The pay-by-cheque method has many adherents. It has the advantage that the endorsed cheque is an indisputable evidence that payment was made. This business-like method is not without its added expense for the employer, as each cheque has to be made out, signed and stamped, testifying that the government has collected its nuisance tax. But the cheque must be cashed and this means for the worker a trip to the bank, or to some obliging shop-keeper. As thousands of wage-cheques are cleared through the banks, bundles of mute testimony accumulate, testifying to the banks' service to its clients.

As a further service by banks in the cheque system of payment of wage and salary earners, banks in small communities not infrequently remain open in the evening following pay day, in order that the customers may not be inconvenienced.

In isolated districts where there are no banking facilities, a common practice is to issue individual cheques to the employee, which are negotiable at par at any bank in the Province. While this is another manifestation of a bank's co-operation in getting his remuneration to the worker, yet it obviously increases the bank's handling charges, as the cheques are cleared through widely separated banking centres.

Strange as it may seem to the wage earner accustomed to receiving a regular stipend, either in cash or cheque, the more recent innovation provides a means of meeting the pay-roll without the wage earner receiving any notice at all on pay day. This system has the advantage of being free from possibility of loss and theft, as well as of disputes, and is accomplished by a bank account being opened for the wage earner when he enrolls for employment with a company. As each pay day rolls round, the bank is furnished with the company's wage sheet and each employee has his wages credited to his own separate bank account, as if he had made the deposit in person. This account then becomes like any other bank account, free to be chequed against, but it must be guarded against overdraft until the next pay day deposit magically appears in the pass book.

And so it is that, regardless of the many systems of pay-off employed by our industries and institutions, our banks play the stellar role as an intermediary between employer and employee.



# A POPULAR MISCONCEPTION

## The Common Theory That Banks Lend What They Do Not Possess Can Be Easily Exploded

BY H. V. ARMSTRONG

**Q**UITE a number of different errors have arisen from that popular misconception of the nature of the banking process which maintains that bank loans are made merely by writing entries on both sides of a ledger—one on the assets side for the borrower's note, and one on the liabilities side for the amount of the credit granted to him. One of the more serious of these is the error that it does not much matter whether the note is paid or not, because the bank never gave the maker of the note anything real in exchange for it, anyhow. Let us examine how and why this is an error.

It is true that the first result of the making of a bank loan is exactly what has been described above—an entry on the assets side, describing the new asset, which is the promise-to-pay of the borrower, and an entry on the liabilities side, designating the amount which has been placed at his credit and which he is entitled to draw.

Now if things remained in this situation, the claim that it does not matter whether the note is paid or not would have some validity. But they don't. The amount which has been placed at the credit of the borrower does not remain at the credit of the borrower. It may not even remain with the bank at all, for the borrower may transfer it, by means of various cheques, to various other people who bank at different banks, or may withdraw part or all of it in cash. But even assuming that there is no withdrawal of cash and no transfer to other banks, there is bound to be a transfer to other depositors of the same bank—since no borrower borrows for the sake of keeping the borrowed money on deposit to his own credit. And these other depositors are absolute creditors of the bank; they must be paid in full on demand or the bank must fail.

### DEPOSITOR'S MONEY

**I**F THE note is not paid, it must be written off the assets as a loss. But nothing can be written off the liabilities to counterbalance that loss, except whatever amount may at the due date of the note be standing to the credit of the borrower—which is obviously likely to be little or nothing, since he is perfectly free to withdraw or transfer all of his loan at any time during its existence.

In a limited sense it is true that when the banks of a country increase their loans they tend also to increase their deposits. But the people to whom the loans are made are not the people who make the deposits. A loan to a shoe factory does not increase the deposits of that shoe factory—for more than a few days, until the manager can use the proceeds to pay off the people from whom he buys supplies and

labor. But it may and usually does increase the deposits of the workmen and clerical staff of the factory, their grocers and bakers and candlestick makers, the dealers in hides and leather and nails and rubber, the lawyers and preachers and teachers and movie-owners and taxi-drivers. And if the bank is able to go on expanding its loans, to the local iron foundry and sawmill and flour mill, it will be because all these people are continuing to trust it, continuing to keep their increasing savings and their current funds on deposit with the bank, continuing to be confident that it is a safe bank to deposit with because its assets are good. In this important sense it is absolutely the money of the depositors that the bank is lending; and in any sense it is the money of the depositors which will be lost—after the money of the shareholders has been wiped out—if the loans to the shoe factory and to the iron foundry and the flour mill go bad and are not repaid at maturity.

### PENALTY FOR FAILURE

**T**O THE extent to which loans do create deposits, the loans made to the John Smith Shoe Company create deposits made by Henry Jones, Tom Robinson, Henri Garneau and Michael Zarbatany, employees and clients of the John Smith Shoe Company. Repayments made by the John Smith Shoe Company provide the funds with which repayments are made to the Joneses and the Zarbatany's. But if repayment is not made by the John Smith Shoe Company, repayment has to be made just the same to the Joneses and the Zarbatany's; it is no use telling them that the John Smith people haven't paid, they will demand their money nonetheless and they are entitled by law to get it. And they are perfectly right. It is nobody's business whether the money when it first came to them in the form of a cheque from the John Smith people or one of their clients was the proceeds of a loan to the John Smith Shoe Company or not; it was money (or an order for money) which had been lawfully in the possession of that company; by the time it was deposited it was lawfully in the possession of Henry Jones or Michael Zarbatany; the bank undertook to look after it for Jones or Zarbatany and to repay it on demand; whatever happens to the note signed by the John Smith Shoe Company, the bank must honor its own undertaking or go broke. If more than a certain small percentage of its loans fails of repayment it will go broke.

And still some people say that the bank does not lend the money of its depositors, and that it does not much matter whether it gets back what it lends or not because the operation of lending is really nothing but writing an entry on two pieces of paper!

## HOW THE BANKS DO BUSINESS

*Continued from Page 25*

is the shape of a credit balance in a deposit account with that bank, is in many respects more useful than money in itself or *near money*. It is subject to no risk. It can be transferred to somebody else in payment of an obligation, which after all is all that money is for unless one is a miser and likes to count it, without being personally taken to his place of business or sent on a registered envelope; and the document of transfer becomes a record and acknowledgment of payment. The bank keeps a constant account of it; it can tell you at any minute just how much there is and what happened to the rest. So the deposits in a bank are to all intents and purposes, to their owners, so much purchasing power, just as if they were so much actual metallic or paper money in their purses.

The essential characteristic of banking is precisely this and nothing else, namely, the ability to obtain money upon promise to repay it on demand. It is not the ability to issue paper money, which is merely another form of promise-to-pay-on-demand, printed on a piece of paper for passing from hand to hand instead of being entered in a ledger at the bank's office. Furthermore banks have no power to issue paper money; the present intention of the legislation establishing the Bank of Canada is that the power to issue paper money of the Canadian chartered banks shall be withdrawn from them by degrees. The essence of banking is the obligation to repay on demand or at very short notice; the art or science of banking is the art of so managing the funds accepted on these terms that the obligation can always be fulfilled; and yet the funds will produce sufficient income to pay the cost of management—and if possible leave something over for the owners of the bank.

### THE CHARGE OF CREATING MONEY

**I**T IS this fact also, the fact that bank deposits are in many respects as useful to their owners, and in some respects more useful, than actual money in the purse, which has led to almost all the misunderstanding of the banking process and the suspicion directed against the banking business. It leads to the charge that banks "create" money, a function which it is claimed should be the sole privilege of the state. The authors of this charge seem to overlook a vital difference between the powers of the state and those of a privately-owned bank. The state *can* create money, in the proper sense of the word create. It can take a piece of paper, which is nothing in the world but a piece of paper, and print some signs on it, and behold, that piece of paper is a dollar. That is all there is to it. The German Government "created" trillions of marks during the Great Inflation in precisely that manner, and there was no doubt about it, they were marks.

But no privately-owned bank can do this, and no well-managed states does do it. What the privately-owned bank does is something much more legitimate and much less spectacular. In addition to printing "This is a dollar" on a piece of paper, or writing the entry "John Smith is entitled to a dollar" in the ledger, the privately-owned bank arranges its affairs in such a manner that *everybody who is entitled to receive a dollar from it, whether by possessing a*

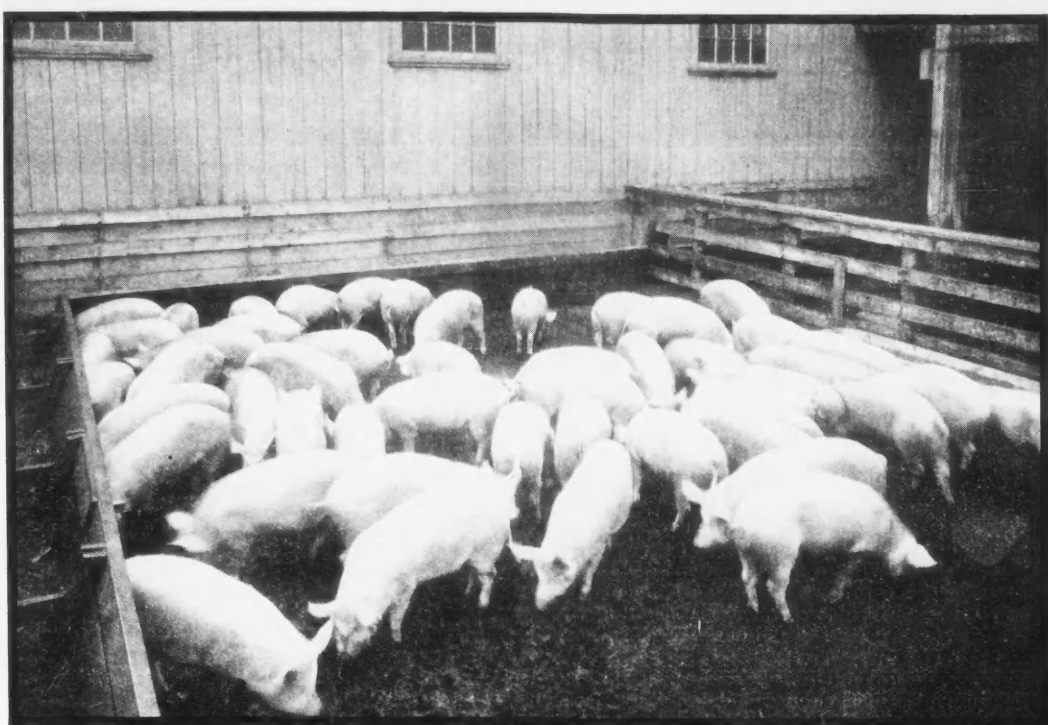
*piece of paper or by reason of an entry in a ledger, shall get a real dollar upon demanding it.* The bank in these days can do no more than deliver whatever the state has declared to be a legal-tender dollar; the state should presumably go a little further and be prepared to deliver an intrinsically valuable metal dollar if the demander insists, though few states are now doing so without conditions.

We must therefore be careful about the use of the word "create." If it means "to make out of nothing," only the state can create money. No bank does, and no bank can, make money, or any equivalent for money, out of nothing. It is quite true that the bank, having received three dollars from a depositor, promptly lends two of them to a borrower, and that the two dollars in the hands of the borrower and the three dollars standing to the credit of the depositor are all of them just as good as money to their owners, making a total of five dollars in all. But the bank has not made the two dollars out of nothing. It has made them out of the borrower's promise-to-pay-in-three-months; and when the same dollars come back to it again from a new depositor it will do the same thing all over again, until ultimately it has a hundred millions of deposits, all just as useful as money to their owners, and in effect the whole of this hundred millions of near-money is made (not "created") out of ten millions of money, ten millions of "call" loans which it can demand back at an hour's notice, twenty millions of very high-grade securities which could be sold for money at short notice, and sixty millions of borrowers' promises.

### VALUE BASED ON CONFIDENCE

**T**HAT which makes a piece of paper printed by the state circulate as a dollar is the declaration, made on the authority of the state and binding on all those within its jurisdiction, that the piece of paper is a dollar. It is legal tender; acceptance of it as a dollar is compulsory. There may or may not be provision made by the state for redeeming it, when the holder asks for redemption, in some intrinsically valuable metal. In any case there is no need for the state to hold assets of any kind to the full amount of the money which it issues; the Dominion for example has always issued a large quantity of notes (since 1914 it has been \$50,000,000) against a gold reserve amounting to only one-quarter of that quantity, and with no other specifically pledged assets whatever, and it can thus be quite properly claimed that the Dominion "creates" \$37,500,000 of money.

But that which causes a piece of paper printed by the bank, or an entry in a bank's deposit accounts to the credit of some depositor, to be just as valuable to the owner as the equivalent amount in legal tender money is not the declaration that it is money, for the bank has no power to make that declaration. It is simply and solely the faith of the note-holder or depositor that it will always and at any time be redeemed in legal tender money. Nobody in Canada is compelled to accept a bank deposit as a substitute for money. Everybody who does accept it does so voluntarily, and is free to exchange it for money whenever he wants to do so. And everybody—including the most ardent critics of the banking system—accepts it because of his perfect confidence that he



A CARLOAD OF CANADIAN BACON HOGS ready for market. They are paid for by the local drover or shipper through loans obtained from the bank, and secured by the value of the hogs themselves. Sold on the market, this loan is repaid and a new one issued to the packing company for the period necessary to cover their curing into bacon and hams, etc., and their sale on either the British or domestic market.

will be able to exchange it for money whenever he wants to do so—for that and for no other reason.

What is the reason for this perfect confidence? Why are bank deposits in Canada practically never withdrawn merely for the purpose of exchanging them for money (except when it is intended to spend the money in the near future)? The answer is short; it is that the Canadian people know that the Canadian banks have assets more than sufficient to cover all their liabilities, and capable of being converted into money more rapidly than would be necessary to meet the most rapid demand upon them that could reasonably be expected. The Canadian people know that, owing to the proved capability and integrity of the managements of the Canadian banks, working under a wisely designed bank legislation, the assets of the Canadian banks are ample in amount, sound in point of security, and readily and promptly realizable. They are perfectly willing to make themselves the voluntary creditors of the Canadian banks to the extent of two billions of dollars. They are not deceived by the banks into doing so; they are not hypnotized by the banks into doing so; they are certainly not compelled by the banks into doing so. They do it because a Canadian bank deposit is more convenient than money and just as safe.

### IT IS ASSETS THAT MATTER

**L**ET us examine briefly the nature of the assets which cause the promises-to-pay of the Canadian banks to be accepted with such perfect confidence. We have already seen a rough division of these into: cash, 10 per cent.; call loans, 10 per cent.; high-grade securities, 20 per cent.; and current loans and discounts, 60 per cent. This distribution of course varies very greatly from time to time, but most of the variation will be found to consist in transfers from the securities item to the current loans item and vice versa. In a period of active business, current loans will be higher and securities lower; but on the other hand the deposits will be more largely demand deposits (funds ready for active use in business) and less largely savings deposits (funds saved and awaiting investment) than they are at present, and securities are an entirely suitable form of investment for the proceeds of savings deposits.

The point about these assets is that the cash is cash; the call loans are instantly convertible into cash; the securities are readily saleable for cash; and the current loans are constantly converting themselves into cash (by repayment) at intervals of two to six or eight months. If these current loans are for an average period of six months (they should really be shorter), and if they are really collectible at the due date, one-sixth of them, or 10 per cent. of the total assets, will mature in cash each month, for they are not all new at any given date but some of them have been outstanding for five months, some for four, some for three and so on.

We have therefore a revolving fund, of which 40 per cent. is as good as cash at any time, 10 per cent. will become cash during the next month and the rest will become cash during the ensuing five months at the same rate. The assumption is normally safe that the depositors cannot possibly demand repayment of their deposits at a more rapid rate than this; and if they should do so there is still the recourse (provided the current loans are really sound) of rediscounting the notes of the current borrowers with the reserve bank—the Bank of Canada. So long as there is no reason to suspect that a considerable part of the current loans or security holdings of a bank are actually bad, there is no reason for the withdrawal of confidence from that bank.

### HOW DEPOSITS COME INTO BEING

**W**HETHER loans cause deposits. It is not nearly so important a question as it sounds. When once it is realized that a bank can only *retain* its deposits, no matter how it obtains them, as long as it can retain the confidence of its depositors, and that the instant it ceases to retain that confidence the deposits, no matter how obtained, will speedily be withdrawn—when it is realized, in a word, that the keeping of a deposit with a bank in preference to keeping it with some other bank or to keeping the money at home in a stocking is purely a matter of the *choice* of the depositor—it will be evident that the question whether loans cause deposits or not is about as practical as the question whether the first hen came before the first egg or vice versa.

It is a matter of historic observation that when a bank with a cash reserve above the normal in proportion to its liabilities begins to expand its loans, it normally finds its deposits also expanding.

When a bank makes a new loan, additional to the loans it has had outstanding before (not a mere re-lending of some money which has just been repaid to it), it adds to its portfolio of assets a documentary

promise-to-pay signed by the borrower, whose present value we will say is a thousand dollars. At the same time it opens a deposit account in the borrower's favor, which will for an hour or two or a day or two contain the full amount of the thousand dollars—until the borrower has time to draw and hand out some cheques upon it. Thus the balance-sheet of the bank is increased by a thousand dollars of assets and a thousand dollars of liabilities.

It is the contention of the extreme "Loans create deposits" theorists that the whole of this thousand dollars remains among the deposits, not of course of the borrower himself, and not necessarily in the same bank, but of the depositors at large in the general banking system of the country, until the loan is paid off and no corresponding loan is made to succeed it.

In order to dispose of this theory it is sufficient to examine the history of the loans of the Canadian banks during a period of expansion and in the early stages of a period of contraction. In the period of declining business and lessened confidence it breaks down completely, showing that the words: "Loans create deposits" need to be qualified by the addition: "when the public is in a mood to have them do so." The fact that deposits are capable of shrinking, not alone in a single bank but in the entire banking system of a country, while loans continue to expand (not by the will of the bankers, but because they are forced at such times to increase their help to clients in difficult circumstances), is a sufficient evidence that there is no dollar-for-dollar linkage between loans and deposits.

### EFFECT OF LOANS ON CASH RESERVE

**N**O BANK, obviously, can offer to lend a thousand dollars to a borrower unless it is prepared to have him withdraw that amount in cash if he feels like it; so that it is quite true that no bank can offer to lend money unless it has the money to lend. Nevertheless it is entirely possible under certain circumstances that the banking system as a whole will never have to pay out any cash as a result of such a loan; that the borrower and his payees will content themselves with bank deposits so long as the loan is current. Such a thing is however not likely; the chances are that some part of any thousand-dollar loan, let us say a hundred dollars on the average over the life of the loan, will be out of the hands of the banks altogether in the form of cash withdrawn by some deposit-holder. But even apart from that consideration, we have seen that a thousand-dollar deposit liability ought to be offset by cash or promptly cashable holdings of between three and four hundred dollars, and only six or seven hundred dollars of current loans. Now this newly-made deposit has added nothing to the cash and cashable holdings while increasing the liabilities, and it may also have reduced the cash holdings by a hundred dollars; so that it has perceptibly impaired the cash ratio, and unless that ratio was unnecessarily high the process of thus adding to the current loans without strengthening the cash reserve will, if long continued, ultimately lead to disaster. It is not safe to permit loans to expand deposits, unless at the same time other deposits, not arising out of loans, are adding to the cash reserve—unless the cash reserve is already too high.

**L**OANS, then, may in some circumstances expand deposits, but cannot be relied upon to do so. They cannot possibly be relied upon to keep the deposits from being withdrawn during the life of the loans—before the loans mature for repayment. Deposits arising from loans diminish the cash reserve ratio and thus weaken the position of the bank. If they are withdrawn to any extent during the life of the loan they weaken the cash reserve ratio still further. The bank manager, therefore, whatever he may think of the academic theories about loans creating deposits, cannot pay any attention to them in determining the amount of his loans. In that process he can consider only two things: first, the adequacy of his cash reserves after any impairment that may happen to them as a result of making the loans, and second, the safety of the loans themselves.

He should not, and probably does not, bother unduly about his critics. Practically all of them criticize him at the same time for committing two absolutely opposite crimes: for promising to repay on demand money which he has no longer got because he has lent it to somebody else; and for not lending to somebody else more of the money which he has promised to repay on demand. He cannot be committing both of these crimes. The fact that he is charged with both shows that he is probably committing neither—that he is lending as much of the money which he has promised to pay on demand as can safely be lent, and that he is keeping in cash and cashable form as much of the money which he has promised to repay on demand as will ensure his ability to repay all that will be demanded. That is the whole art of banking.



# CANADA AND U.S. CONTRASTED

## Each Branch Backed by Resources of Nation-Wide Institution Under Our System

BY JULIAN MONTROSE

THE somewhat unusual behavior of the Canadian banks in remaining open and in failing to record a single casualty throughout the entire depression impressed observers in the United States profoundly. Feature articles have appeared on the subject by the score. College curricula added courses on the Canadian system. Serious students of economic problems began to probe this mysterious financial Gibraltar of the Canadian banking system as never before.

The advertising value of all this, to Canada, was immeasurable. Of course characteristic Canadian modesty precluded undue adulation. But at this late date an unbiased comparison of the banking systems in Canada and the United States will surely not be considered unporting if it points to some of the factors leading to almost daily banking casualty lists on one side of the border and a complete lack of mortality on the other.

Confidence has always been the psychological corner-stone of financial institutions. This element of confidence had been built up by the Canadian banks over a century. And when probably the greatest test of the century came, that confidence proved itself merited. Every school child in Canada knew he could open an account in one of the Chartered banks, deposit his money, and find it there waiting for him when he wanted it. But his American cousin had no such assurance. He had heard of too many instances in which the money wasn't waiting when it was wanted, even before the depression. Then when pressure began to be put on the banks early in 1933, only a few days were necessary to wipe out that degree of confidence which did exist, and hundreds of sound institutions went down with the less sound units. Prestige and confidence built up over generations were wiped out in a few hours. The trail of misery and despair which followed is all too well known.

### RESPECT FOR TRADITION

BUT this is not intended to be an indictment of American banking. When the crisis came the Roosevelt Administration hastened radical remedial measures with characteristic American dispatch. Loop-holes were closed. Machinery was put into operation to bring as many State banks as possible into connection with the Federal System. Banking legislation was widely amended. Let it also be said for the American system that its private, local banks in the days of development had facilitated an industrial and commercial expansion quite without precedent. Furthermore the United States boasts many hundreds of large banking institutions of the highest caliber, some of which have existed for a century or more.

Why two systems with a common tradition should swing so far apart in their evolutionary trend is not our present problem. Suffice it to say that temperamental differences between the two peoples played a decisive part. The American aptitude for experiment and what Herbert Hoover termed "rugged individualism" helps to explain a private banking system of relatively small units, locally administered. Conversely, the same helps explain a higher mortality rate than one would expect in a highly developed branching system. The Canadian respect for tradition and cautious procedure lend themselves more readily to a system of larger institutions mapped on precedent. Hence slower progress with surer results. This suggests, in the long run, federal banking laws, standard from coast to coast, against a checkerboard of State laws varying widely and lacking uniformity.

Then of course the inter-mixture of what Canadians consider real estate business with banking in the United States represents a radically different concept of the banking system. Losses on real estate holdings went far in explaining the heavy bank mortality rate. It has been charged also that bank examinations at least in several of the States are much more superficial than the Canadian inspections, but no general statement would be fair without supporting evidence which is impossible in an article of this scope.

American banks have also at various times, and especially in the most recent period of difficulty, experienced very heavy losses through their investment policy. Federal and State authorities have tended to lay down rigid prescriptions as to what a bank's investments should be, with the result that within the limited field permitted to them many banks went in for securities of dubious quality because they wanted a higher yield than they could obtain from the better grades; some of these securities became entirely worthless, and others depreciated heavily. It is significant to compare this with the experience of the Canadian banks, with the great bulk of their securities in government bonds which actually advanced in value very substantially during the depression. The Consolidated Balance Sheet of all the Canadian banks as at September 30 shows that out of total investments of \$1,103,208,994, only \$51,793,587 come within the category of "Other Bonds, Debentures and Stocks"; the rest of the eleven hundred millions consists of federal, provincial and municipal securities and securities of public authorities elsewhere, and the great bulk of them consists of those issued by the Dominion Government itself.

### A CO-ORDINATING FACTOR

THE superimposing of the Federal Reserve System and the Bank of Canada respectively have tended to lessen the gap between the two systems. The panic of 1907 brought out clearly in the States the need for rediscount facilities and the critical lack of credit mobility. This of course has been rectified. Canada, presumably, has always had more flexible credit machinery due to the very nature of the branch system. The Bank of Canada assumed the additional functions of looking after currency problems and gold supply, regulating the movements of the Canadian dollar in the foreign exchange markets, etc.

The most important claim of those who maintain that the American bank system would be better for Canada than that which we have is the claim that in a large bank with many branches the smaller localities do not get their fair share of the credit granted by the institution, which tends to flow more readily in the direction of the big centres and big borrowers. Under the American system, it is said, each community keeps its own deposits at home and uses them for its own needs through its own local bank.

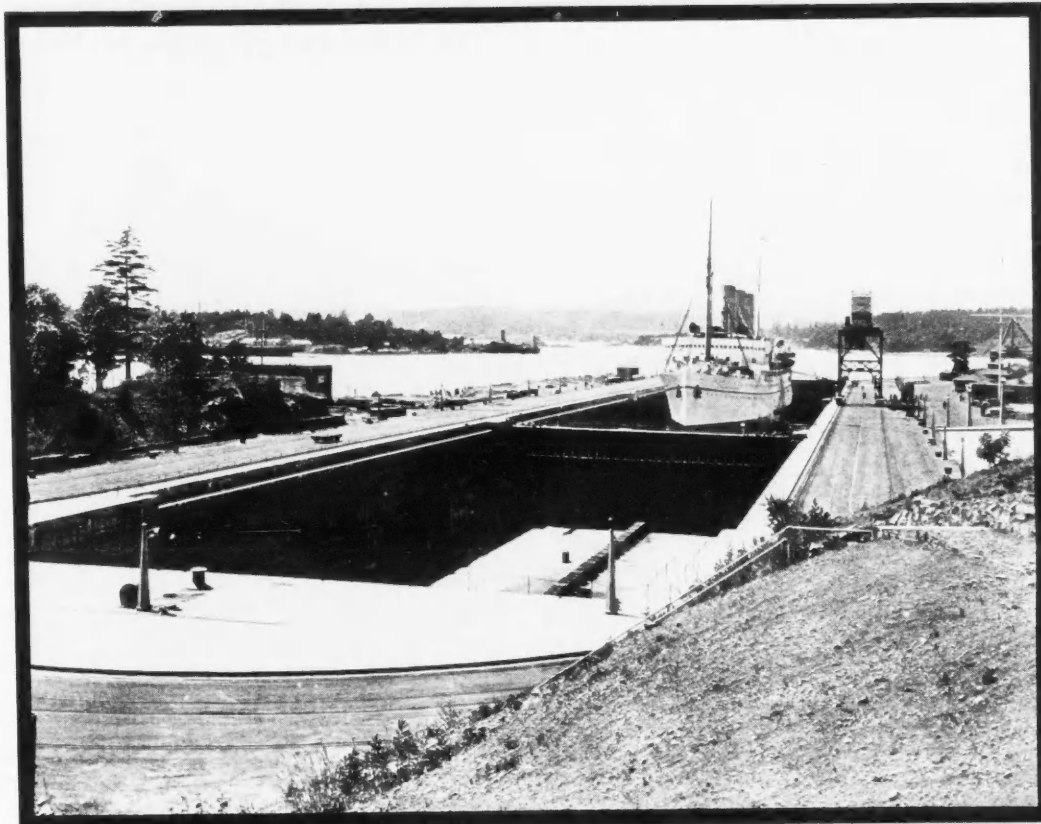
### FREE FLOW OF CREDIT

IT IS true that under the Canadian system there is a much freer flow of credit from one community to another, through the fact that all the branches of Bank A scattered over hundreds of communities of the most differing types are parts of a single institution, and all the branches of Bank B are similarly linked one with another, and the loanable funds of the whole institution are available for lending wherever they will be safest and most profitable.

But far from diverting funds from the smaller and remoter places to the big centres, the Canadian system has quite the opposite effect. The weakness of the smaller and younger communities, in which branch banks are readily established under the Canadian system, is their lack of accumulated wealth; in comparison with the branches in older parts of the country they have very few deposit

accounts of the type maintained by people who keep them in the bank as a form of investment and leave them there for long periods. The deposits which do exist in these places are mostly those which arise out of the making of loans in the same place, and they tend to be far below the amount of the loans. Bankers have repeatedly submitted evidence, to parliamentary committees and elsewhere, showing that the ratio of loans to deposits in the Canadian West, for example, is much higher than in the East, which indicates that, far from Western funds being transmitted to the East, Eastern funds are made available, at the seasons when needed, to carry on Western business.

A Canadian branch in Saskatchewan is part of a unitary system of branches extending from the Atlantic to the Pacific, and the funds of the whole system can be drawn on for the purpose of meeting any demand for loans arising in that branch which appears conducive to safe and profitable business. An American bank in South Dakota, on the other hand, can use no funds to make loans except those which are provided by the deposits arising in its own territory (against which it must at all times hold a reasonable reserve in cash), unless it resorts to the roundabout and rather risky procedure of itself borrowing from some other bank in another part of the country which has funds to spare and small demand for loans. In these circumstances it is not surprising that much criticism has been directed against the local banks of the United States, especially in territory at a distance from the financial centres, for their practice of keeping a portion of their funds on deposit or on call in Chicago and New York. It is a perfectly proper procedure, for it provides them with a safe and instantly realizable reserve which yet may earn them a little money; but it involves a diminution of the total amount of the proceeds of the local deposits which they can keep available for local borrowers. The Canadian branch can make available to local borrowers a sum which may and often does greatly exceed the deposits which it carries.



SHIPPING CROSSES TWO OCEANS. Largely due to the strength of her banking institutions, Canada has developed a world-wide transportation system second to none. In particular do Canadian ships provide unrivalled service across both the Atlantic and Pacific. Here is one of the famous C.P.R. trans-Pacific Empresses in the drydock at Victoria, B.C. The drydock itself is the second largest on the American continent. —Photo courtesy The Victoria & Island Publicity Bureau.

## BANKS BUY AND SELL CREDIT

### Simple Analogy Makes Clear the Basic Principle of the Business of Banking

BY B. K. SANDWELL

ALL business, under the economic system in vogue in most civilized countries today, consists in buying things, doing something to them which alters their character in some respect, and selling them again. If the price at which they can be sold is more than the price for which they were bought, the business is a success. If the price at which they are sold is less than the price for which they were bought, the business is a failure; and if it goes on being a failure long enough it will cease to operate.

This description applies perfectly to the business of banking, remote as it may appear at first sight from the general idea of what a bank does. For the essence of the business of banking is this: that the bank buys a certain kind of credit documents, or promises-to-pay, does something to them, and sells the resultant product, which is its own promise-to-pay; and banking is successful when the bank is able to get a better price for its own promises-to-pay than the whole cost of the promises-to-pay of other people which it buys.

There is a slight difference between banking and, let us say iron-making, in that, since the thing which is sold is merely a promise and not a real and presently existing good, it is possible to sell the bank's promises-to-pay before buying the promises-to-pay of anybody else. In other words, a bank can accept deposits before it has begun to make loans (which is another term for buying other people's promises). But if a bank confined itself to accepting deposits, and kept the money deposited with it in its vaults instead of using it to buy other people's promises, it would be compelled to make a charge for accepting these deposits instead of paying interest upon a large part of them and giving a great deal of free service in connection with all of them. In order to be able to sell its own promises at the price which

it actually gets for them in ordinary business—which is one hundred dollars for a promise to pay one hundred dollars on demand, and slightly less for a savings-deposit promise, which is theoretically redeemable only on thirty days' notice—it must be able to buy other people's promises at a good deal cheaper than this, since all its running expenses and its profits must be got out of the difference.

(The history of banking begins with the discovery by the goldsmiths that they did not have to keep in their vaults the gold which they had accepted "on deposit," that is to say in exchange for their promise to give it back on demand, but that in practice it was sufficient to keep a certain proportion of it in the vaults and lend out the rest on good security and for short periods of time. Prior to that discovery they naturally made a charge for taking gold on deposit; after it they began to take gold without charge and even to pay interest on it, which was good for the owners of the gold, and at the same time they were able to make it much easier for those desirous of borrowing to obtain loans. It has sometimes been suggested that the goldsmiths in the early days of this development were "putting something over" on the owners of the gold; but more probably these owners were quite aware of what was being done with their property, and were just as willing as the present-day depositor to rely on the general credit of the man or company to which they handed over their coin.)

Other people's promises-to-pay are thus the raw material of the banking business, and the profit of the business is obtained by buying these promises, working them up (so to speak) into a better sort of promises-to-pay, namely the bank's own promises, and selling this product at a better price.

In considering the economics of this process, it is well to bear in mind that the bank has to accept

all the risks attaching to the raw material which it purchases, differing in this respect from the ordinary manufacturer who can contract for a certain standard of material and need not pay for what he gets if it does not come up to specifications. A carload of defective leather or defective iron ore can be detected at an early stage by the manufacturer of shoes or structural steel, and if the defect can be established he will not be liable for its cost. But when a bank buys the promissory note of a borrower it must take the chance of that note going wrong and that borrower failing to pay; and the defect is never visible at the time of purchase and may not become visible until many months thereafter. On the other hand, the bank's own product, its own promises to pay in the shape of deposit accounts, bank notes and other obligations, must always be unimpeachable.

### ACCURATE DEFINITION

THIS description of the banking process, as a series of purchases and sales of promises-to-pay, is really more accurate than the ordinary terminology of lending and borrowing. For lending commonly implies a retention of the ownership of the thing lent, even though the use and physical control of it passes into the hands of someone else. When we lend a book to a friend, the book does not cease to be our property. When we borrow a house from a landlord, by the transaction known as a lease, there is no transfer of the ownership of the house from him to us. But when a bank "lends" a thousand dollars to a merchant to aid him in carrying on a business operation it ceases to be the owner of the thousand dollars and becomes instead the owner of the merchant's promise-to-pay, with all the safeguards and also with all the risks that may be attached to that promise.

The staff of the bank, or at least its senior members such as branch managers and accountants, are professional buyers of promissory documents. Their whole training is directed largely towards qualifying them to judge the qualities of these little pieces of paper and of the guarantees and pledges that go with them. The man who deposits a few hundred dollars in a savings account in a bank might yet a much better rate of interest for himself (or more correctly speaking, might buy his right to future money much cheaper) if he went out and looked for a borrower who was willing to pay the rate of discount that the bank would charge him; he would be short-circuiting the connection between lender and borrower, and cutting the bank out of its position as intermediary. But he would not only be putting himself to an immense amount of trouble; he would also be undertaking a task for which he has no training and experience, namely the task of determining who is a good borrower and who is a bad one. It is this task which the whole of the lending side of the bank is organized, equipped and trained to perform, and which it performs immensely better than any individual can expect to.

## Banks Make Collections Easy

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account. If it is a time draft, he is expected to "accept" it and thereby acknowledge the debt and promise to pay it.

A note is a written promise to pay a definite sum on demand at a specified time in the future. Once given, there is no further question as to its justification, or the validity of the debt. Thus a customer, on receipt of goods or of a bill for some, may give his note as acknowledgment of the debt and as a promise to pay it at the time specified. The holder of the note may realize upon it at once by discounting it with his bank, with his own name on the back by way of endorsement. Notes, of course, are commonly used in ordinary borrowings between individuals, but they also have an important place in commercial collections.

### BANKING MACHINERY EFFECTIVE

A SUMMARY of these well-established means of payment will demonstrate the variety and effectiveness of the machinery provided by the modern banking system, to those concerns doing a widespread business. Company A sells to Customer B, goods which may be paid for in any of the following ways: First, B may pay actual currency or "cash," if he is located near enough to A to do so directly; second, he may give a cheque or his own bank account, which method is available at any distance, and merely leaves to the bank the task of arranging for the payment of the cash or its equivalent; third, B may procure from his own bank, and have charged to his own account, a bank draft which he will send to A; fourth, A may draw a draft upon him, which he will accept; fifth, B may give his promissory note to A.

The aggressive manufacturer or mercantile house, selling goods over a wide area and perhaps in foreign markets as well, probably uses all of these devices for collections of its accounts. A small proportion of sales will be for cash. Many will be settled by receipt of the customer's cheque, or of bank drafts sent by him, from time to time; drafts will be drawn upon certain customers at times; while in some cases the promissory note of the customer will be obtained.

A firm dealing in stocks and bonds is almost as varied in its methods of collection, though here the customer's cheque to cover specific purchases, or to adjust debit balances in his account from time to time, and the delivery of securities through the bank "with draft attached," are the most usual methods of settlement.

The ordinary citizen, whose transactions are mostly of a private nature, holds mostly to cash and to cheques, but occasionally he will meet with circumstances where the draft, or the promissory note, will be useful, and he should know these types in a general way.

It is through this machinery developed by our banking system, that we are able to finance a business turnover which each month exceeds the total of deposits in our banks, and runs to many times the amount of actual currency in circulation. It has often been asked, how can billions of debts be paid, when there are only millions of gold and notes in the country? The answer is, that each month, through the ordinary working of our bank and exchange machinery, the debts which arise in our ordinary commercial and financial dealings, and which exceed the total of money in circulation, are cleared with ease.



# WHAT IS BASIS OF CREDIT?

## Two Elements Must Exist—Ability to Pay and Ability to Enforce Payment

BY W. T. N. EDWARDS

THE time is more than ripe for some clear and sane talking on the subject of credit, which is fast becoming one of the most abused words in the English language. We refer of course to credit in its exact and financial sense, not in its various figurative meanings.

The essence, the inescapable essence, of the whole idea of credit in its financial sense is the expectation of repayment. A man's credit is his ability to obtain present goods (usually money) upon the expectation that he will repay them at the time nominated in the credit document or promise-to-pay. Without that expectation there is no credit in the proper sense of the word.

In order that credit may exist, in this its only proper financial sense, it is absolutely necessary that there shall be two elements present in the relationship between debtor and creditor: prospective ability to pay on the part of the debtor, at the proper time, and prospective ability to enforce payment on the part of the creditor, by means of the sovereign power of the community as exercised through its courts. These two together contain all the expectation of payment that a lender can get; if either of them is lacking his expectation of payment is impaired or destroyed.

It is not, naturally, necessary that the expectation should be one hundred per cent. perfect. If all expectations of repayment were one hundred per cent. perfect everybody's credit would have the same value and all interest rates would be identical. But every weakening in the expectation of repayment has to be compensated for by a corresponding rise in the interest rate, and a similar rise may be caused, without any real risk of non-payment, merely by a difficulty in making sure that payment can be relied upon.

### GOVERNMENT INTERFERENCE

IN ORDER for credit to exist, therefore, the two necessary elements, ability to pay on the due date, and ability to enforce payment, must not only exist but must be capable of being ascertained by the lender, and the extent to which they can be ascertained, and the cost of ascertaining them, will be reflected in the rate of interest. Ability to pay is of course a matter of the financial position, business skill, circumstances and character of the borrower, and must be investigated in every individual case. Ability to collect, from a debtor who is able to pay, has until recent years been pretty well taken for granted in all British countries in the case of any promissory document executed in accordance with certain legal formalities; it is now, unfortunately, rather almost as uncertain as ability to pay, owing to the extent to which the sovereign power of governments is interfering to shield the creditor from having recourse to the courts.

The individuals of a community, therefore, whether as individuals or as organized into societies or as a type recognized by law as capable of contracting debts, possess each and every one of them a certain amount of credit; it may be zero and it may be a million dollars, which is based absolutely upon the expectation of their ability to pay and of the ability of the creditor to enforce payment under the law. It is possible to add together the credits of

these individuals and societies and talk about the total credit of the community. But we do not by adding them together create any new expectation of payment; we do not add any new credit, and we do not transfer the existing credit to any new owner. The debts remain payable by the same old debtors, and if those debtors do not pay them nobody else will.

### CAUTION IS ESSENTIAL

PRACTICALLY all the current misunderstandings about the nature of credit arise from losing sight of this, its essential element, the expectation of repayment. An immense number of people seem to entertain the idea that a would-be borrower who proposes to carry on some productive activity is entitled to be supplied with the funds necessary for the carrying on of that activity, whether or no he can satisfy the lender that he will be able to repay them when the productive operation is over. But the simple fact is that unless the lender is satisfied that he will be able to get repayment, he is not lending; he is subsidizing. There may be occasions on which the government, acting as agent for the community, may be justified in subsidizing a projected productive operation which cannot be relied on to repay its cost, because such an operation may confer indirect benefits upon the community; but no private lender, and particularly no lending corporation which is merely acting as agent for other persons who have entrusted their funds to it and who are the real lenders, can possibly undertake any such loan. And even the government should be very well satisfied as to the indirect benefits to society before it starts handing out the money of the citizens upon uncertain security.

One of the limitations on the re-expansion of credit in Canada today is the widespread deficiency both in the expectation of the borrower's ability to repay and in the expectation of the lender's ability to enforce repayment. The reasons for this deficient expectation cannot be discussed here at length, but the cutting off of old markets and the uncertainty about the development of new ones are a general economic factor, and the increasing burden of taxes upon productive enterprise and the increasing impediments to the collection of just debts by means of the courts are general political factors. As these obstacles diminish the volume of credit will expand. Fortunately public confidence in the banks, which are the chief mechanism for the conversion of credit (which, strictly speaking, is merely potential borrowing power) into actual borrowing, is as high as it has ever been. No disaster more fatal to the re-expansion of credit can possibly be imagined than any action by governments, or any policy adopted by the banks themselves, which would cause the slightest breath of doubt as to their ability to fulfil their promises to the lender.

With the restoration of good grounds for belief in the ability of borrowers to repay, and in the ability of lenders to enforce repayment if necessary, and with a continuance of the present ample supply of cash reserves (which as elsewhere explained must be maintained at a safe proportion to deposits), there will be no further obstacle to a re-expansion of credit on a scale large enough to take care of utmost volume of productive activity of which Canada is capable.

## BANKERS FINANCE THE FARMER

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of grading and selling, interest on the loans from the bank, and other necessary expenses.

Similar lines of credit are extended by the banks to private wool dealers who buy wool from the farmers and resell it to the mills. Even the mills themselves secure credits from the banks to enable them to buy sufficient quantities of wool to keep their plants going until the premiums they make from the wool can be sold to the consumer.

Dairy farmers are much less seasonal in character than either wool or wheat. Their production and sale goes on continuously more or less throughout the year. Yet bank loans play an important part in their production and marketing.

Many a dairy farmer has financed part of the purchase of a herd of good dairy cows through a loan from the bank, secured by the value of the cows themselves. True, in 1930 when prices were cut in half by the Fordney Tariff in the United States, the farmer had extreme difficulty in meeting payment of the loan when it was due. Sometimes he was forced to resell the cows at a serious loss to himself in order to meet the obligation. If he was a farmer in good standing with the bank, however, he more often received an extension of time for part at least of the obligation. And this in spite of the fact that the bank much preferred payment in full in order that the money might be re-loaned for other purposes.

This year the prices being paid for good dairy cows, at auction and private sales, indicate that farmers seeking to improve their herds, or young farmers starting new ones, are again using bank loans to finance their purchases. And the improvement in the price of dairy products assures the banks that these farmers will not be likely to have the same difficulty in making repayments.

Equally valuable to the dairyman is the part played by the banks in the processing and sale of his products. Many a local cheese and butter factory has been built and equipped through the agency of a loan from the bank for part of its cost. It is not the type of loan banks prefer as it ties up their funds for too long a period. But facilities for converting milk into butter and cheese are necessary in the development of any dairy community. Loans for this purpose, therefore, help to increase the business and trade of the community, which in turn increases the deposits of the bank and the demand for the more desirable short-term financing. One such factory, co-

operatively owned by a group of 160 dairy farmers in Northumberland county, Ontario, was built and equipped at a total cost of less than \$25,000, which includes the purchase of five trucks for gathering the cream. This small plant will turn out over 600,000 pounds of butter this year. It is a valuable asset to that community, and to the banks that serve the community.

Cheese and butter once made is valueless unless it can be moved to a market and paid for. The familiar purchases of cheese on the various cheese boards of Ontario are, in part at least, financed with money borrowed from the banks, to be repaid when the cheese are sold in Great Britain.

Few cheese exporting houses could afford to maintain, in readily accessible form, all the capital required to pay for the thousands of cheese they buy each week pending its resale several weeks later in the British market. Short-term loans from the banks, secured by the value of the cheese themselves, since they are on the way to a consumptive market, greatly facilitate this movement.

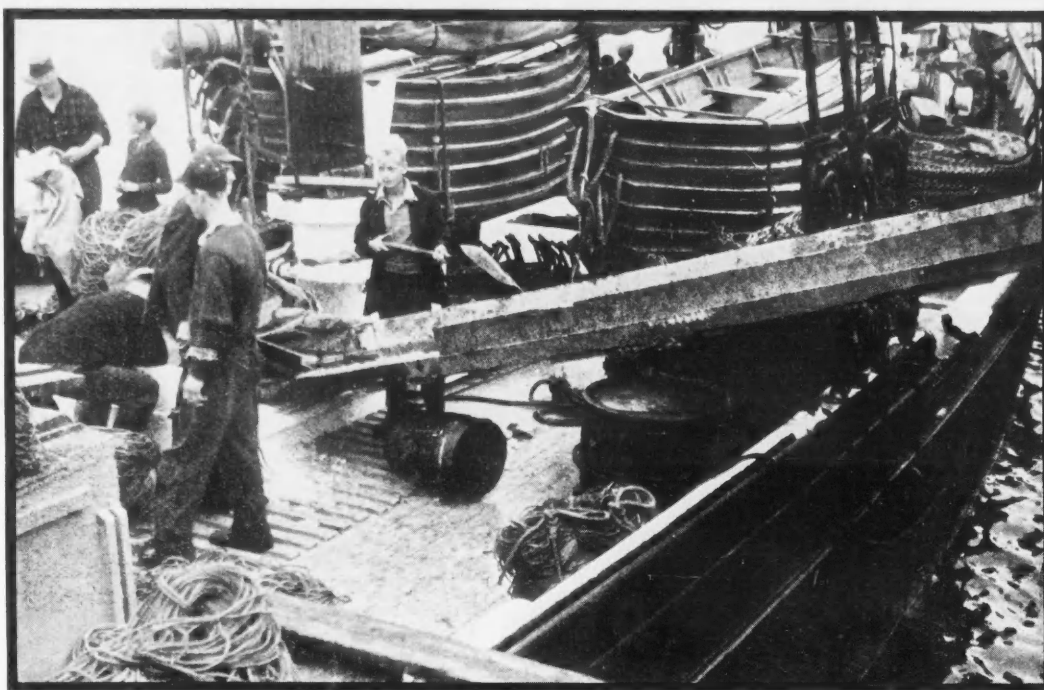
In the same way bank credits make possible the holding of butter from seasons of heavy production in May, June and July, for resale in the low productive winter months.

### AN ONTARIO EXAMPLE

A YEAR or so ago, I visited the town of Napanee in Eastern Ontario when farmers were bringing in their dressed poultry for sale through the poultry pool. In three days over 100 tons of potential Christmas dinners were weighed over the tables, graded, and packed for shipment to Montreal, Toronto, and for export to the British market. None of it was paid for by any dealer until it was delivered to him at his place of business. Yet the farmers who consigned it received payment at prices for each grade quoted by the dealers, less the actual expenses of grading and packing. The local bank cashed the cheques issued by the Poultry Pool in return for the bills of lading covering shipments to the various dealers. A sight draft attached to each bill of lading and forwarded to the dealer, meant that the shipments had to be paid for before the dealer could take delivery of them at his plant.

In this case, bank credit was required for only a few days for most of the shipments, but it enabled the farmers to receive immediate payment for their poultry with the bank assuming the responsibility of collecting from the dealers.

Similar instances could be cited for almost any



A GRAND BANKS SCHOONER loading ice at Chester, Nova Scotia. The payment for such essential supplies is often facilitated by bank loans. On the deck are seen the dorics from which the actual fishing is done.

farm commodity produced in volume requiring shipment to distant markets. Purchase and shipment of carloads of potatoes, hogs and lambs from the Maritimes to Montreal and Toronto markets are financed by this method. Already this season over 680,000 barrels of Canadian apples have been shipped to the British market and bank credits have enabled farmers of the Annapolis Valley, Ontario and British Columbia, to receive payment for them, and in turn use that money for purchases of many things they need from their local storekeepers or to pay their doctors, dentists or others who have rendered them professional services. Perhaps, even, to repay money they had themselves borrowed from the bank to meet current needs on the prospects of their apple crop. All this several weeks before the banks receive their settlement following delivery of the apples to the British buyer.

### COLLECTION SERVICE

ONE could go on indefinitely. Even the fox ranchers of Prince Edward Island, who last year produced silver fox pelts to the value of about half a million dollars, have been known to require credit for current expenses until they could market their annual fur crop through the auction sales at Montreal and London. But enough has been said to give a general picture of the relationship of the banks to the farmers.

There is a private relationship, however, between the local branch manager and his farmer customers about which much less is heard, except when the banker is forced to refuse credit because he can see no prospect of it being repaid. In that respect the banker is much as you and I. He hesitates to part with money unless it is to be used for some productive purpose that will offer a reasonable prospect of its return. If it is charity that is needed, he must supply it from his own private funds, not from the funds of the business he is employed to serve—funds that are really trust funds deposited with the banker and for which he is definitely responsible.

But to those who can show that the money is to be put to productive use and repaid in a reasonably short period of time, and who further have a good record of repaying previous loans, the local banker advances money for a great variety of purposes.

In a chat with a friend of mine, Mr. Noel Sarney, formerly manager of a local branch at the little town of Florence, Ont., he told me of some of the services the local manager can render.

After many auction sales in the country the holder of the sale finds himself with a number of notes he has taken in payment for the goods such as live stock or chattels that he has sold. By turning these over to the bank he can secure cash for them, if they are endorsed by responsible people, and the bank takes over the duty of collecting them. Had the farmer to collect these himself it would cost him far more than the bank charges for the service. Not infrequently at these small sales the banker acts as clerk or assists in other capacities.

Individual loans to farmers made by the local managers seldom exceed \$500 but they are made for a wide variety of purposes. At Florence, farmers needing a little extra money at seeding time secured



GRAND BANKERS AT LUNenburg, N.S. A part of the fleet which gives profitable employment to thousands.

it by giving a note to the bank to be met when they sold their grain after the harvest. Another common type of loan was for the purchase of cattle in the fall to convert the farmer's hay and grain into beef. The fattened cattle, sold in the spring, enabled the farmer to repay the loan and under a reasonably stable price level have enough left to give him a fair price for his feed.

Other farmers pressed for ready money but with a load of hogs coming along will use them as security for a short term loan until they are ready for market.

"It was a common experience," stated Mr. Sarney, "during the season of heavy live stock shipments in the fall, for the farmers to bring their weight slips, signed by the local drover or shipping agent, to the bank and receive their money for their loads of hogs or cattle." The drover, of course, had previously arranged for a line of credit to meet these payments, for which the live stock, to be sold in a few days on the stock market, supplied the necessary security.

Another service in which the local banker plays a valuable part in assisting the young farmer to establish himself, is in financing the development of new projects in the community. One such loan was of material aid to a young man starting up a flock of turkeys on a farm where soil and other conditions were particularly adapted to turkey raising. The success of this flock led to a number of others being started in the community. Sheep clubs and heifer clubs have been started and their young members given valuable training in the use of credit, through notes given to the bank by the boys, endorsed by the boys' parents, to cover the purchase of the initial flock or heifer and repaid as the boy sold the products from them.

Many a farmer has put up new buildings or remodelled old ones and in doing so found himself temporarily embarrassed for funds to complete them. A loan, secured by a crop to be sold at a later date or a load of stock, has carried him along in the interval.

The local banker, with an intimate knowledge of his customers, is in a position to know when such loans are justified and when they would mean tying up bank funds for too long a period and should be financed through long term credits provided by mortgage. In the latter case the bank manager has to explain that banks are not engaged in the farm mortgage business, though that is a point some farmers find it hard to understand unless they realize the necessity the bank is under to keep its funds in a fluid or readily available condition to meet the constantly recurring demand for short-term loans.

### WHY NOT EXPLAIN THINGS?

IT IS this feature of bank credit that is most frequently criticized by the farming community and that I have tried to make clear in preceding paragraphs. If banking officials, from the president down to the local branch managers, would take their farmer customers more fully into their confidence, explain this phase of the banking business to them, and in turn invite their customers to discuss their difficulties with them, it would remove much of the present criticism. It is pretty thoroughly understood by the heads of large business firms because of their frequent contacts with heads of the banks. How frequently, I wonder, have the men who control the funds of the banks invited representative farmers to have lunch with them and discuss their relative positions with respect to the extension and use of bank credit?

One other criticism of the banks and of labor unions and manufacturers as well, frequently heard in the early days of the depression perhaps not so often of late—is that the cost of their services is out of proportion to the returns the farmer receives for his work. The sudden drop in farm prices that occurred in 1934—a drop that was far more rapid than the reduction of costs the farmer had to meet, certainly explains this criticism. Since 1932, in Eastern Canada particularly, this situation has been gradually improving. In the West it has been delayed by the recurrence of drought and the seeming impossibility of finding an outlet for the wheat surplus at reasonable prices.

A frank recognition that this situation existed and that a full return to prosperity in Canada can only come as the necessary adjustment is made, would remove much of this criticism. Whether the various interests concerned will ever agree as to when the re-adjustment is complete, is, of course, another matter. The improvement that has taken place in the past two years and the growing rapidity in the turnover of bank credits is evidence, however, that farm prices and farm costs are definitely coming to a more even balance.

A clear understanding on the part of the banker, the business man, the wage earner, and the farmer, of what causes these factors to become out of balance, will tend to prevent its recurrence. If the banks can lead the way in bringing about this clearer understanding they will have performed another and extremely vital service to the farming community.



# SATURDAY NIGHT

SECTION III

BUSINESS

FINANCE

GOLD & DROSS

INSURANCE

THE MARKET

Safety for  
the Investor

TORONTO, CANADA, NOVEMBER 23, 1935

P. M. Richards,  
Financial Editor

## WHAT THE CANADA-U. S. TARIFF CHANGES MEAN

Concessions by U. S. Should Produce Higher Price Level for Primary Producers  
—Average Living Costs Probably Lower—Manufacturers' Profit Margins Cut

BY W. A. MCKAGUE

THE first major step in the Liberal "new deal" for Canada has been disclosed, in the terms of the Canada-United States trade pact. It is an unequivocally Liberal step, befitting a party which initiated the British preference in 1897, and which proposed reciprocity with the United States in 1911. It can hardly be claimed that reciprocity was as prominent an issue in the Dominion election of 1935 as it was in that of 1911, but the party at least did not attempt to conceal its intention to implement in some degree its traditional policy. Whether its success at the polls in 1935 was due to a change in public sentiment on this question, or was merely another reverberation of unrest, is of no consequence at this stage.

It has always been somewhat of a mystery, at least to the casual student, why our trade with the United States, which exceeds that with any other country including Great Britain, has been subjected to the highest restrictions of which our tariff systems are capable. It should be pointed out that Canada imposes a general tariff or schedule of duties, a British preference schedule which averages substantially lower, and an intermediate tariff which was intended for countries with which some concessions from the general rates were arranged; to this basic system has been added, in recent years, a multitude of special valuations and regulations which in many instances materially raised the general or maximum charges. The United States tariff, embracing both statutory and administrative measures, is fully as complicated, perhaps more so. There was a reciprocity arrangement between 1854 and 1866, but since that time Canada has levied general tariff rates on goods from the United States, and the latter has not made any general concessions to Canadian goods.

As this is written on Monday, within a few hours of the publication of the actual terms of the treaty, there has not been time to examine the reaction of the principal industries and interests affected. The broad lines of the treaty had been disclosed in the press for some days in advance, however, sufficiently to enable us to make some estimate of the probable effects. It goes without saying that there will be strong protests from numerous quarters, for every change brings its injuries as well as its benefits, and

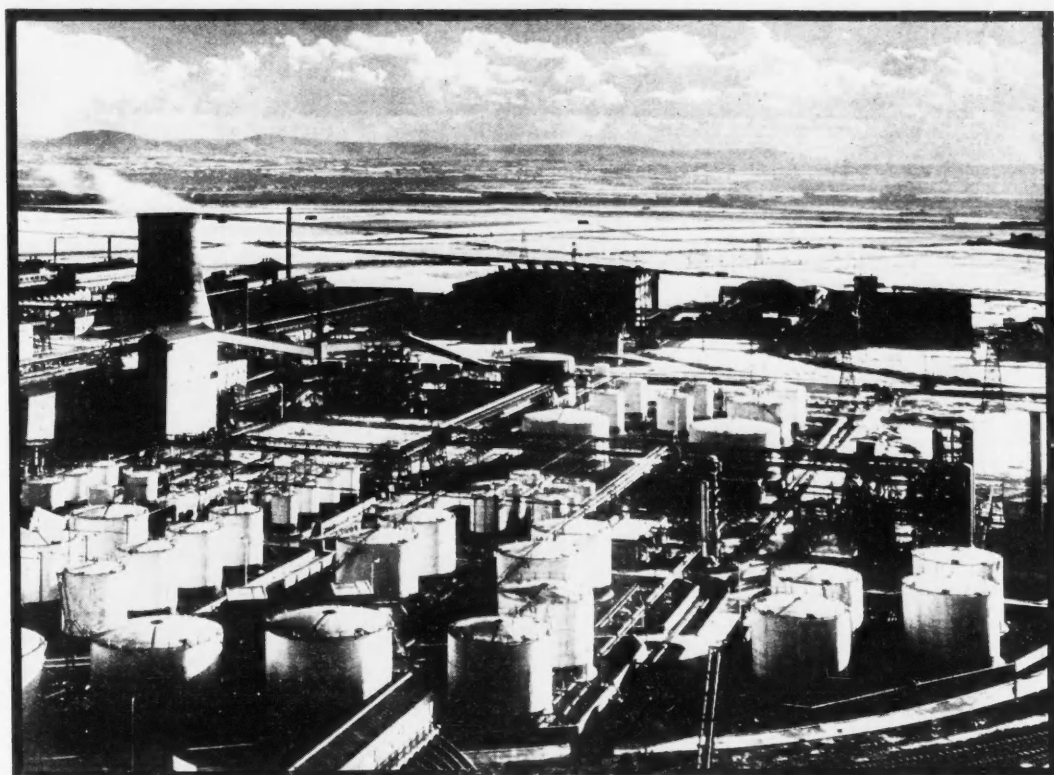
those faced with the former are usually the more inclined to finance deputations. More especially is this true in a change of the present nature, towards lower protection, for the consumer is unorganized and voiceless.

LEAVING aside the political issues which are outside the scope of this article, and also fundamental arguments on the merits of protection versus

free trade which in these times of delicate balances are beyond the range of practical policy, we can roughly divide the people of Canada into the following classes from the standpoint of this reciprocity treaty:

First, producers (chiefly in farming and other primary industries) who depend upon world prices to determine their earnings, and who therefore are

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**GASOLINE FROM COAL.** This is the new \$15,000,000 coal hydrogenation plant of Imperial Chemical Industries Ltd. at Billingham, near Stockton-on-Tees, England, the first in the world for the production of gasoline on a commercial scale by the hydrogenation of bituminous coal. When in full production it will make 150,000 tons or 45,000,000 gallons of gasoline a year, of which 100,000 tons will be made of coal and 50,000 tons either of coal or creosote oil and low-temperature tar. Photograph is by Infra-Red process.

## TRADE TREATIES AND CANADIAN INDUSTRY

Aim Should Be Not Merely Tariff Reductions, But Scientific Tariffs That Allow Producer to Compete in His Own Market On Even Terms With Imported Goods

BY WILLIAM KING

A COMPLETE and satisfactory understanding of the position of manufacturing industries in Canada is very essential prior to a considered examination of trade treaties now being arranged between this and other countries. It seems to be taken for granted in many quarters that Canada's imports will expand during coming months and executives of manufacturing industries are not only apprehensive but in some instances mystified at the turn of events. Some of the basic considerations governing imports of manufactured goods into this country and the relation they bear to similar goods produced in Canada can hardly fail to be of interest and value.

Even a cursory glance at this country's trade statistics will reveal the fact that imports increased in the year 1934 and again in the year 1935 after recording a new low level in the year 1933. It was not altogether because we imported more manufactured goods; as a matter of fact we increased our takings of raw commodities for manufacture in this country, but we may sum up the larger imports by saying that our national income increased and therefore we were able to spend more. It was on the whole an excellent sign and an indication of real economic recovery that we were able to increase our purchases abroad.

Both nations and families invariably increase their expenditures as income increases, except when attempting to meet debts caused by over-spending. An increase in the family income is usually the signal for an increase in the family's store of material things and substantially increased exports invariably mean larger imports. It is only on rare occasions that a family will refuse to live up to its increased income and a nation voluntarily tighten its belt and refuse to spend its increased earnings; in point of fact it is the family with the increased income which controls the spending habits of the nation. The trouble starts when the family or the nation makes commitments considerably in excess of its income.

As Canada is a debtor nation, its imports and exports must be subject to the closest examination, especially when imports are increasing, for if imports exceed exports, the difference can only be made up by imports of capital which create interest and other obligations and add to the burden of the country. So that while we must welcome imports which are based on increasing exports, we must avoid rash spending and in particular curb that type of unwise spending which is often released when tariffs are reduced and goods can be obtained more cheaply abroad than in Canada. So that any trade

treaty should aim to increase the volume and of course the value of trade between two countries without greatly disturbing the ratios of imports and exports, unless the balance in favor of one country is manifestly unfair.

IT SEEMS evident that Canada's imports will increase in the near future on two counts, one, because we have more money to spend as a result of larger exports, and two, because our tariffs against certain countries will be lowered and we shall prefer goods made abroad because they are as good as, and cheaper than, those made in Canada. It is obvious that larger imports will conflict with goods produced in Canada, to the detriment of the latter, although an increase in domestic purchasing power will not all be spent out of the country and domestic enterprise will benefit to some extent. Those industries which are most vulnerable to import competition through extremely high production costs or because they are compelled to compete in the home market with goods manufactured at an absurdly low cost by a foreign producer will suffer the most.

Before discussing the question of production costs in manufacturing industries at length, some reference must be made to what has become known as a balanced national economy. There is almost general agreement that the first era of land exploitation in Canada is over and that we must look to a steady development of agriculture and farming along pro-

gressive lines, as well as the steady growth of manufacturing industries to supply the major portion of domestic requirements. This doctrine is quite sound because it agrees with the broad plan of national development and because it is in accordance with world trends. If our imports are to increase as a result of trade treaties and increased spending power generated by higher raw commodity prices, then we have to consider the position of manufacturing industries which are obviously exposed to import competition.

A balanced national economy implies consideration for both agriculturists and industrialists. We realize that the farmer must have a minimum price for his products and we realize that relatively young manufacturing industries require protection during the early stages of their development. A balanced national economy implies reasonable tariff rates on imports of manufactured goods which increase their selling price in the Canadian market to the point where it is comparable with the selling price of the domestic article. When the tariff on a certain class of goods is too high, then the price level of the identical domestic commodity is increased above its true level and in this case a tariff fosters inefficiency. Likewise a tariff which does not allow for higher production costs in Canada compared with other countries will force domestic establishments out of business and as far as the particular commodity is

(Continued on Page 24)



THE Canadian consumer and the Canadian primary producer are going to benefit by the reciprocity pact with the United States, but what is going to happen to the Canadian manufacturer? That is the question Canadian business has been seeking the answer to this week. Clearly only time will provide it. Will the larger demand for manufactured goods resulting from increased purchasing power in Canada compensate for the lower margin of profit per unit of manufacture and for loss of sales due to United States competition? The general feeling seems to be that it will not do so completely; that not all Canadian manufacturers will have an increase in sales volume while virtually all will have to accept the lower margin of profit. Against this there is the fact that in the past our own production and prosperity have always been greatest in periods of peak imports, and that Canadian manufacturers have shared in this prosperity. A point often overlooked is that we live by trade and that increased trade must mean greater prosperity. It is not essential to this end that the pact shall give us a trading advantage over the United States. Increased production, distribution and consumption of goods will improve the lot of all concerned on both sides of the border.

AS HAS been said many times in this column, the pressure of natural forces is strongly towards increased trade and economic recovery. This basic world-wide condition has existed for the past three years or so, but during that period progress has been checked, or made very slow and difficult, by the continued existence of many barriers to trade in the shape of excessively high tariffs, import quotas, government subsidies, artificial and unstable currency values, and the like. Naturally under such conditions trade has languished and unemployment has been rife. The burden of providing for the unemployed has nearly bankrupted governments and municipalities in every country, and is responsible for much of our trouble in Canada today. Canada's most pressing need today is to put her million unemployed back to work, where they will again be an asset instead of a liability to the community as a whole. The reciprocity pact initiated by Mr. Bennett and carried to completion by Mr. King holds out the promise of achieving this.

FURTHERMORE, by increasing the exports and income of our primary producers, the reciprocity pact will tend to increase purchasing power just where an increase was most needed. Though prices of manufactured goods had declined in recent years, in many cases to unremunerative levels, prices of agricultural products had declined far more, so that farm income fell far below the point of normal farm consumption of manufactured goods. When the farmer reduced his buying, industry declined and unemployment grew. Latterly the relation between agricultural and industrial prices has been improving; that is, prices of farm products have been rising faster than those of manufactured goods, and the resulting reduction in the price disparity has notably increased the volume of farm buying. This has been the main factor in bringing about the trade improvement evidenced everywhere in Canada today. But obviously a full degree of prosperity will not be possible until prices of agricultural and industrial products are again in balance.

A MINOR reduction in a manufacturer's profit margin (and on the great majority of items the indicated reduction will be quite moderate) does not really matter much if the manufacturer enjoys a worthwhile increase in his volume of business. And the indications are, as this column sees them, that for most manufacturers the business increase will be more than worth while. Probably the average citizen does not fully appreciate the extent of the depression-accumulated deficiencies of all kinds of goods that still remain unsatisfied.

These deficiencies are the greatest on record. Farmers urgently need new agricultural equipment, manufacturers need new machinery and buildings, individuals need new houses and cars and furniture. They will certainly buy if they have the means with which to do it. An increase in farm income due to the trade pact combined with lowered prices of manufactured goods should quickly produce a buying wave that will cause increased production and employment and a general rise in prosperity.

WE BELIEVE that the reciprocity agreement will make for a substantial improvement in conditions in Canada. But, of course, no matter how successful it may be, it cannot remedy all our troubles. There are still the overseas markets for our wheat and other products to be considered, and until trade conditions are again conducive to their acceptance of adequate volumes of these goods at remunerative prices, we cannot enjoy the degree of prosperity we feel ourselves entitled to. And we still nationally, provincially and municipally have a crushing burden of debt; likewise a railway problem that the new government has evinced little concern with so far. But the trade pact bids fair to be a big step in the right direction. As already said, it should do much to reduce unemployment, which is our most pressing need.

## BUSINESS AND MARKET FORECAST

BY HARUSPEX

DOW JONES AVERAGES—NEW YORK STOCK MARKET			
	Industrials	Rails	
July 8 '32	41.22	July 8 '32	13.23
Sept. 7 '32	79.91	Sept. 3 '32	39.27
Feb. 27 '33	50.16	Feb. 25 '33	23.43
Feb. 8 '34	110.74	July 7 '33	86.53
Oct. 21 '33	83.64	Mar. 12 '35	27.31

THE PRIMARY TREND OF STOCK PRICES HAS BEEN UPWARD SINCE JULY 1932.

It was suggested in this forecast last week that investors would be wise to convert part of their market profits, about 25%, into cash. Also that speculators (operating on margin) would be better off to get entirely out of their commitments on the long side.

For the six days ended Monday, November 18th, a total of nearly sixteen million shares changed hands in the New York Stock Market, with an advance of only 2.2% in the combined Dow Jones Averages. It may be true that the Rail averages on November 16th bettered their critical rally high of September 11th, but please note it was only fractional and follows an eight month rise. Many stocks are now selling at prices that more than discount every possible favorable contingency for months ahead. A cash reserve, therefore, for the present looks more attractive than the possession of equities, until the market fever dies down, to permit of a more calm appraisal.

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Notice is hereby given that a dividend of two per cent on Canadian funds on the paid-up capital stock of this Bank has been declared for the quarter ending last November, 1935, and that the same will be payable at the Bank and its Branches on and after Monday, 2nd December next, to shareholders of record at the close of business on the 31st October, 1935. The Transfer Books will not be closed.

By Order of the Board,  
S. H. LOGAN,  
General Manager.  
Toronto, 18th October, 1935.

# GOLD & DROSS

## GUNNAR AND MINING COSTS

Editor, Gold & Dross:

I am advised that the total mining and production costs at Gunnar Gold Mines will not exceed \$5 per ton, which evidences a profit of \$9 per ton since the examining engineer, Mark Little, M.E., gave the average grade as \$14 per ton. I will be glad to have your comments on the probable earnings of Gunnar, utilizing the full mill capacity of 150 tons.

J. A. E., Toronto, Ont.

I think you have misunderstood the figures of the probable profit and costs at the Gunnar Gold Mines, when it's 150-ton mill gets into production early next spring. Instead of \$5 costs, with \$9 profit per ton, you must mean \$9 costs, and \$5 profit per ton. No mine in Canada or elsewhere on this continent that I know of has costs as low as \$5 per ton under circumstances similar to those of Gunnar. Its ore shoots are inclined to be narrow and Mr. Little indicated a stoping width of 3½ ft. Pioneer Gold Mines of British Columbia has similar widths but treats about 400 tons daily and its costs last year were \$10.15 per ton. Central Manitoba, with its 150-ton mill, has over-all costs of \$9.84; Macassa, with its 200-ton mill and wider ore bodies, has costs of \$10.07 per ton.

At Siscoe the costs are \$7.81 with a 350-ton mill. Sylvanite, with a 370-ton mill, has costs of \$8.41. Though Hollinger's costs are \$4.88 per ton, Lake Shore, the largest producer of gold in Canada, has \$7.80 costs. You will thus see that hope of \$5 costs is not in line with costs even of large mills.

If profits of \$6 per ton were realized from the 150-ton mill, the apparent earnings per share are about eleven cents; if they were \$5 per ton, this would indicate nine cents per share earnings. Of course, if the full 150-ton facilities were not utilized, earnings would be proportionately lower.

## PRESSED METALS ATTRACTIVE

Editor, Gold & Dross:

I bought 100 shares of Pressed Metals at 13 as a speculation and I see that it has now gone up to 16½. What I would like to know is if I should sell now and take my profit or if you think I would be justified in holding on. Would you please be good enough to let me have your opinion as to the possibility of greater appreciation as I have been told they are working twenty-four hours a day, have two years' orders ahead and do a tremendous business with some of the biggest motor car companies. I hear they are considering paying up this year all the dividends they passed recently. Any information you can give me in confirmation or otherwise will be greatly appreciated.

R. F. E., Toronto, Ont.

Despite the fact that you already have a profit, I think you would be fully justified in retaining your common stock of Pressed Metals of America. I cannot confirm the actual rumors you have heard, but it is quite true that the company is currently exceedingly busy, that its products have been adopted by leading motor car manufacturers and that the company appears to be generally headed for a period of important earnings. Naturally the earlier introduction of new automobile models has resulted in increased activity for the company this year and in all probability the 1935 earnings will show a notable advance.

I think that you are laboring under a misapprehension when you refer to the company paying up the dividends which were passed. The outstanding capital stock of the company consists of 110,774 shares of no par value common stock; naturally such a security does not carry a fixed rate of dividends and consequently there can be no arrearages. This year, on the 1st of April, the company declared a 2 per cent stock dividend in order to conserve the capital, and on October 1st of this year paid a dividend of 12½¢ per share in cash. It is believed in financial circles that this payment may indicate the placing of the stock on a 50 cent annual dividend basis. No such official statement has, however, been made by the company.

After deficits of 16¢, 24¢ and 21¢ per share in the years 1930, 1931 and 1932 respectively, the company's earnings started upward and in 1933 amounted to 22¢ per share and 8½¢ per share last year. While no interim figures have been issued, officials of the company have stated that business during the current year has been most satisfactory, and, as I pointed out above, I anticipate a fairly important earnings increase.

The company's last balance sheet showed total current assets of \$267,815 of which cash was \$25,000 and marketable securities \$26,000, against current liabilities of \$191,865. In recent years the company has had heavy expenditures to meet on capital account in order to increase its facilities for meeting larger production in the motor car industry. While naturally the capital stock of this company is speculative, nevertheless I think that the outlook is sufficiently bright to warrant holding. I would not be at all surprised at further appreciation and possibly regular dividend distribution will be instituted before long.

## PERRON GOLD MINES ATTRACTIVE

Editor, Gold & Dross:

I have been advised to purchase as a speculative investment some shares in the Perron Gold Mines Ltd. Please advise if you would consider this a fair speculation to hold for market appreciation.

H. J. Lloydminster, Sask.

Considerable progress has been made at the property of the Perron Gold Mine since the present company was incorporated in March, 1934, and all indications point to a profitable mine in the making. A large mining company formerly held the property under option but after doing considerable work dropped it. The present company, however, has had adequate advances provided through Nesbitt Thomson & Company and is conducting a development program that apparently is meeting with considerable success. In a recent official statement 6,365 feet of drifting on the 175 and 325 foot levels indicated a total ore length of 3,737 ft. with an average width of 4.3 feet and an average assay of about \$14 per ton. This is a high percentage of ore to the amount of drifting done and officials point out that on the 325 foot level the best ore zone was just being developed. Diamond drilling has also indicated a continuation of ore. From the test mill that has been operating on the property in past months an average recovery of \$13.85 was made, which seems to confirm the official

ore grade. At the present time a 125-ton mill is under construction, planned for operation next January. This mill will be operated by electric power. Indications are that at least \$5 profit per ton will be made from the ore presently developed.

The company's finances are in good shape according to the last report, at which time 1,566,984 shares were outstanding out of the authorized capitalization of 2,000,000 shares. Funds have been provided by Nesbitt Thomson & Company taking up stock at 50 cents per share and this company holds an option on the balance of the treasury stock at this price. With ample finances assured and with the ore position as indicated by developments and under able direction, it is apparent that the property has merit and offers attraction as a mining speculation.

2 2 2

## VENTURES POSITION

Editor, Gold & Dross:

You were formerly friendly towards the prospects for Ventures but in the last few months you have been distinctly cold, recommending its sale as soon as prices improved. Do you still recommend this? I saw a long article in the Toronto Star (I believe) pointing out that its holdings showed a liquidating value of over \$2 a share. I am hesitating between buying more, or selling and buying some of the stocks Ventures holds. Your advice would be appreciated.

P. A., Montreal, Que.

I quite concur that Ventures has a formidable list of holdings in companies showing importance but the fact that the market value of these holdings is equivalent to practically \$2 per share for Ventures stock does not mean that Ventures is necessarily worth that price. In fact, if you will check up on most mining holding companies you will find that the equity, based on market values of holdings, is considerably more than the market price of its own shares. The point that I wish to make is that mining holding companies often fail to become dividend payers—that is, revenue received is generally used for exploration or other purposes.

With the unwieldy financial structure of Ventures I do not see how any worthwhile dividends can be paid and it occurs to me that a reorganization of the financial structure would be desirable. It is a stock that has gyrated in the market very considerably over a period of years and I think you are best advised to dispose of it on one of the upswings and get into one of the companies which it controls, if you still desire to participate in the activities of the Ventures group. It seems to me Beattie, Malartic and Sullivan are attractive junior gold stocks in this group.

2 2 2

## BELL TELEPHONE OF CANADA

Editor, Gold & Dross:

I am thinking of buying some of the common stock of Bell Telephone Co. of Canada, a security which I have always regarded highly but somehow I never actually acquired any. I suppose you have dealt with this company a number of times before in Gold & Dross, but I have no information available, and I wonder if you would be good enough to give me a brief picture of the company's general record, position and outlook? Do you think the long-term outlook for this company is favorable? I mean, is there any likelihood of trouble through government interference or agitation for public ownership? There are also two other points which occur to me: first, is the present \$6.00 dividend safe, and secondly, do you think there is any hope of the \$8.00 rate being restored? This, if I remember rightly, was paid for a great many years. Your valuable assistance will be greatly appreciated.

J. R. D., Brantford, Ont.

I do not think you would be making any mistake in buying Bell Telephone common at current levels of 139, at which point yield is 4.3 per cent. I have always regarded this security favorably, backed as it is by an excellently managed company, firmly entrenched in the richest area of Canada. The long-term trend I regard as being distinctly favorable.

To answer your last question first, we have official assurance by the president of the company as to the maintenance of the current \$6.00 dividend payment which in all probability will be covered by earnings during the current year. As to restoration of the \$8.00 dividend rate which was paid regularly from 1891 to April 15th, 1932, I consider this highly probable. I believe that the general trend of business should be upward during the future and that a company like Bell Telephone, which is exceedingly susceptible to the general business level, should benefit directly and immediately. There is no doubt as to the part which the telephone plays in both the business and personal life of the community, and installations will naturally increase as returning prosperity becomes more widely distributed. As to the possibility of government interference I consider this definitely unlikely. I believe that the policy of the new Federal government will be to interfere as little as possible with sound established enterprises and that it will, rather, offer every encouragement possible as a means of hastening recovery. It is true that the Bell Telephone Co. of Canada on several occasions in the past was subject to investigation following agitation for rate reductions, but so successfully did the company present its case that I doubt there will be a recurrence of such efforts for a very considerable period. So long, as well, as the company maintains its record for efficiency, fair dealings and general public service, I do not think there will be any serious attempt made toward public ownership of this important utility.

The company's earnings and dividend record for the past seven years has been as follows: 1928, \$9.28 and \$8.00; 1929, \$9.01 and \$8.00; 1930, \$7.26 and

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Each letter of inquiry should refer to one company or security only. If information on more than one company or security is desired, the sum of fifty cents must be sent with the letter for each additional company or security inquired about. If such additional inquiries relate to mining or insurance matter, they should be written on separate sheets of paper.

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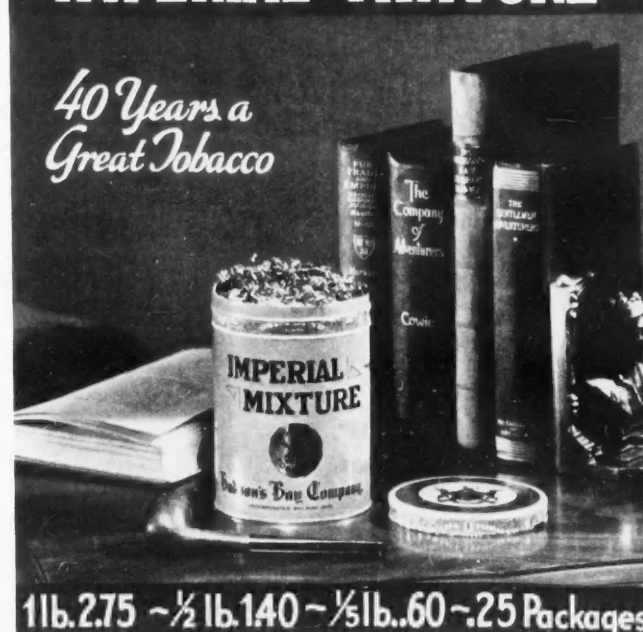
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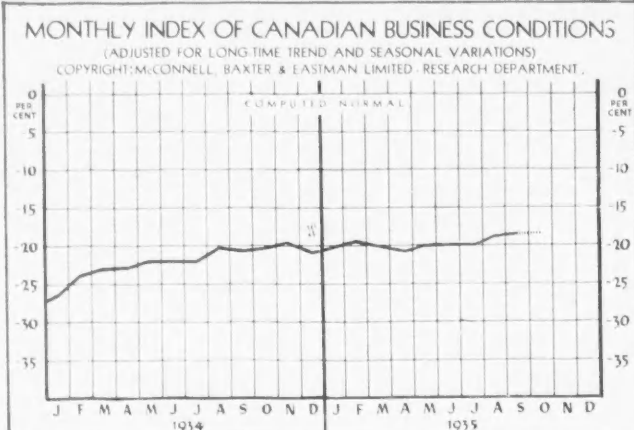


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## THE TREND OF BUSINESS



BUSINESS in Canada during the month of October showed a fractional gain over the month previous according to the McConnell, Baxter & Eastman monthly index. The preliminary figure was 18.5 percent below normal. Revised index for the previous month showed conditions at 18.8 percent below normal. A year ago conditions were 21.1 percent under par.

Gains were recorded by two factors, revenue freight loadings, up one-tenth point and construction contract awards, up 1.1 points. Bank debits needed one-tenth point and electric energy output was down a similar amount.

The combined index shows a gain of nearly ten points, or 13.4 percent over October, 1934.

The following table shows the four component factors and the combined weighted index after the usual statistical refinements.

	Oct. 1935	Sept. 1935	Oct. 1934
Carloadings of revenue freight	76.9	76.8	77.1
Construction contract awards	65.3	61.2	62.3
Bank debits	96.3	96.4	94.5
Electric power production	109.7	100.8	80.5
Combined weighted index	81.5	81.2	78.9

Preliminary.

## China's Silver Policy

Why the New Currency Reform Scheme Virtually Brings China Into the Sterling Area

BY GILBERT C. LAYTON

Sunday Night's Financial Correspondent in London

LONDON financial opinion has, after initial uncertainty, made up its mind to commend the Chinese Government for its scheme for currency reform. With the intention of reorganizing the whole banking and currency system it has been decided to peg the exchange at the present level, to amalgamate the note issues under a central control, and to call in all the country's resources of silver. At last China has taken the step which, it became obvious as soon as the effects of America's silver policy were clear, she had to take sooner or later. It is thought that China has now virtually entered the sterling area, for no one really believes in the possibility of Roosevelt's proposal, and China's accepting the wholesale exchange of American gold for Chinese silver to establish China on a hybrid gold standard.

The Chinese authorities have undertaken a big task, and implicit in their decision is confidence in their ability to check smuggling and to convert the conservative Chinese people to new trade customs. Estimates put the silver reserves of the Chinese and foreign banks in China at the equivalent of \$20,000,000 on the basis of the devalued Chinese dollar. Private holders of silver undoubtedly have a strong financial, if not moral, reason to send their stocks abroad rather than to sell it at the official price for the augmenting of China's silver reserves. It is considered, however, that the Government can put an effective stop to smuggling, although with a 40 per cent. devaluation (on the basis of the silver parity) the sterling rate is 4.23 sh. whereas the Shanghai dollar is really worth 2s.

With so drastic an undervaluation of the Chinese dollar in terms of silver, it seems that either the dollar must appreciate or silver must depreciate to a closer parity. The former factor depends, of course, not only on the price of the Chinese dollar in terms of silver but upon its price in terms of other currencies, and in this sense it is impossible to say that it is undervalued. As regards the price of silver, President Roosevelt holds the reins. He can no longer find wholehearted support of his silver policy in America. The New York Times has seized upon this moment of currency reorganization to point out that the silver scheme was carried through Congress largely on the argument that it would restore the purchasing power of the East. But the United States' exports to China have decreased and the result of America's policy in China herself has been seen in deflation and bank failures.

naturally, since it meant an unaccounted increase in the external value of the currency, still further hindering the export trade. Small wonder, then, that China casts envious eyes to the sterling bloc where currencies are relatively se-

cure and immune from outside manipulations with the measure of value. The gold bloc is too expensive a luxury for China.

What, it may be asked, is likely to be the American policy vis-à-vis the demonetization of silver by China? This, with the accompanying embargo on exports, will mean a large withholding of supplies from the markets, although if the Government finds it necessary to support the Shanghai dollar the sales of silver involved will ease the position of the world market. This is unlikely, however, since the dollar may receive considerable support consequential upon the smuggling of the white metal.

IT MAY be said with some reason that the success of the Chinese scheme is in President Roosevelt's hands, for it depends upon the control of smuggling, and this will become increasingly difficult if the incentive to smuggling is heightened by an increase in the price of silver. The "silver senators" in America still remain confident regarding the support of the President for the silver-purchasing policy, and Senator William Henry King has predicted that the continuance of President Roosevelt's present policy will see the price of the metal rise to \$1.29 per ounce. America's holdings of silver still fall far short of the required 25% of the metallic backing for the currency, and if Senator King is right China must give up all hope of checking smuggling, for her frontiers are widespread and ill-guarded; but if President Roosevelt was sincere in his first argument in favor of the silver-purchasing policy he will not wish to see such further appreciation in the price, for the old argument regarding the purchasing power of the Orient by which China was primarily intended is now fully exploded. This is a view which the bullion market seems to hold, for the recent rally in the price was due to technical influences, and with the discount on forward silver back to 7.16d., there is obviously a measure of pessimism in the market's outlook.

In such a home of political opportunism as America, reason is an unsteady basis for prophecy. If Mr. Roosevelt were concerned merely with the economic rightness of his action, he could not do other than discard his silver policy. It looks, however, as if the voice of the "silver senators" in Congress will be loud enough and compelling enough to persuade the President to make no change in his policy, at least until after next year's election.

The price of silver is thus not likely to fall at all considerably in the predictable future, nor is it likely to show a rise corresponding either to the forecasts of the enthusiastic American silver interests or to the April boom.

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## EIGHTY-SEVENTH ANNUAL REPORT OF THE CONSUMERS' GAS COMPANY OF TORONTO Year ended 30th September, 1935

Your Directors present herewith the Eighty-seventh Annual Report of the operations of the Company, together with the Financial Statements for the year ended September 30th, 1935.

General business conditions did not improve to any appreciable extent during the year and there was no diminution in the seriousness of the problems with which your Directors have been confronted in carrying on the affairs of the Company during the past few years.

The gross earnings for the year have been more than sufficient to pay all costs of operation including taxes, uncollectible accounts, interest charges, the cost of actual repairs and renewals, and the regular dividend. To carry out completely the Company's statutory obligations relating to the Plant and Buildings Renewal Fund it has been necessary to draw upon the Reserve Fund to the extent of \$504,215.42. The amount transferred from earnings to the Plant and Buildings Renewal Fund was \$1,052,015.63, and of this amount there has been spent on repairs and renewals during the year \$512,272.11, leaving the sum of \$539,743.52 to be added to the Fund.

The efforts of your Directors towards further reducing operating costs have been largely offset by increases in items of expense beyond their control. In April last the freight rate on coal was advanced by 15 cents per ton while the provisions of the Dominion Budget presented on March 22nd reduced by a substantial amount the drawback of Customs duty paid on gas coal to which the Company had been entitled under an amendment to the Customs Tariff adopted one year previously.

The additional burdens of taxation which have been imposed upon the Company from time to time since the year 1930, have now assumed a degree of permanence from which it is not possible at the present time to predict any relief. The total provision made in the accounts of the year for direct taxes, which include Dominion Income Tax, Provincial Corporations Tax, Workmen's Compensation Tax, and Municipal Property Tax, was \$490,513.40. In addition to the amount of direct taxes, the items of Customs Duties, Excise Tax, Sales Tax, Fees and Licenses have amounted to \$373,325.99.

The unavoidable losses from uncollectible accounts for last year, while still greatly in excess of normal times, were considerably reduced from the figures of the preceding two years.

The sales of gas appliances show a very satisfactory increase in volume being 37 per cent. greater than the sales of last year. The activities of the Commercial Department in promoting and stimulating the use of gas among all classes of consumers were continued in a vigorous manner throughout the year. Interest in the cooking demonstrations of the Home Service Department has been well maintained and the large attendance at the lectures is ample proof that the homemakers of Toronto appreciate receiving instruction in better methods for the utilization of gas in the home.

There have been no important additions made to the manufacturing plant or distribution system during the year. All of the properties of the Company have been maintained in good repair and up to a high standard of operating efficiency.

The total amount paid in wages and salaries for the year was \$1,803,005.79. The number of employees at present on the Company's payroll is 1,287, more than 90 per cent. of whom have been in the Company's employ for more than 5 years. Almost 70 per cent. of all employees have service records in excess of 10 years, while 262 men have served the Company continuously for 20 years or longer.

Particular attention is given by the Directors to maintaining proper working conditions for the employees of the Company, including the installation of appropriate safety devices for the prevention of accidents, the adoption of fair wage schedules and reasonable hours of work, as well as the provision of opportunities for advancement for the workers. Pensions have been granted to those employees who, after long years of employment, have become incapacitated for further service. There are at present 25 former employees receiving gratuities from the Company. The favourable employment conditions created by the Company have resulted in the long service records of its employees and have contributed materially to the harmonious relations which have existed between the employees and the Company for many years. The employees are thereby encouraged to give loyal and efficient service to the Company, to render prompt and courteous service to its consumers, and to co-operate with the management in effecting all reasonable economies in the costs of operation.

In order to ensure an uninterrupted supply of gas coal, and to take advantage of the economies afforded by lake transportation, the Directors considered it prudent to purchase in advance a sufficient tonnage of coal to meet the Company's requirements during the winter months, the coal to be held in storage on the docks at Canadian Ports for shipment to the Company's works when needed. Favourable arrangements have been made with the Company's bankers for such funds as were necessary to finance these purchases as well as for the amount of the capital expenditures undertaken during the year.

The share capital outstanding at the close of the year consisted of 140,552 shares of Common Stock of a par value of \$100.00 each, a total value of \$14,055,200.00. The ownership of the capital is vested in 3,489 shareholders, of whom 1,718, or 52.08 per cent. of the total, are women, 962 or 27.57 per cent. are men, and 710 or 20.35 per cent. are financial institutions, corporations and estates. An overwhelming proportion (94.23 per cent.) of the capital stock is held in Canada.

All of which is respectfully submitted

ARTHUR HEWITT,  
President

The following gentlemen were elected Directors for the ensuing year: A. R. Auld, Esq.; T. Bradshaw, Esq.; A. H. Campbell, Esq.; L. Goldman, Esq.; Arthur Hewitt, Esq.; C. S. Macdonald, Esq.; Col. I. F. Michie, Esq.; G. Osler, Esq.; F. H. Wood, Esq.

At a meeting of the Board held subsequently, Mr. Arthur Hewitt and Mr. A. H. Campbell were re-elected President and Vice-President, respectively.







# TRADE TREATIES AND CANADIAN INDUSTRY

(Continued from Page 17)

concerned, Canada will be the loser, although the commodity's selling price has declined.

Industrial production costs in Canada are higher than in any other large industrial country, for several reasons. In the first place a population of 10 million people implies a limited production and the impossibility of mass production of specialized lines. Secondly, the cost of building a mill and buying machinery to put in it is considerably higher than in England or Germany or Belgium. Thirdly, wage costs in this country are in general at least 60 per cent. higher than in Great Britain and more than 60 per cent. higher than in many European countries. Fourthly, our maintenance charges for heating, machinery, etc., are much higher than abroad, and finally, distribution costs are relatively high owing to goods being disposed of in an extremely wide territory.

Canadian manufacturers should be the first to admit that production costs in this country are high relative to those in large manufacturing countries, because it is sufficient for them to rest their case on the fact that the early stages of a balanced national economy compel higher production costs. Even the most rabid advocate of free trade is bound to admit that higher costs are justified on the grounds of national development, although he is perfectly justified in declaring that production costs must be progressively lower. This whole question was ventilated at the Ottawa Conference and it was agreed that "uneconomic industries," or industries which would require an abnormal tariff to permit them to compete in their own market, had no right to exist. It was as a result of the Ottawa Conference that the first real attempt was made to create scientific tariffs which bring the cost of the imported article up to the cost of that made in Canada.

Accepting the condition that industrial production costs in this country are relatively high, but agreeing that tariffs are necessary to shelter economic industries until such times as their production costs can be reduced to the required level, there is ample support for the view that tariffs must be scientific and allow the Canadian producer to compete in his own market on even terms with goods imported from foreign countries. This type of regulation implies that in the case of an extremely low cost producer like Japan, the tariff must be established at a relatively high level and must be adjusted from time to time according to circumstances.

If the principle of a scientific tariff be accepted, there can be no valid objection to special regulations which effect attempts of the producer to further reduce the price level of his manufactured goods by carrying depreciation or by deliberately reducing the prices of goods for export and improving sales in the home market. All the special regulations devised by the late government in the past five years to bring imports into a proper relationship with exports and reduce the position of their export to what might be called the "tariff of the future" are in the nature of a "tariff of the future" which would be little less than a catastrophe in the effect in several branches of Canadian manufacturing industry.

THE scientific tariff is sound in theory and practice, as far as Canada is concerned, and special imports are necessary in times of disintegration of world currencies and trade. If new trade agreements do not subscribe to the principle of scientific tariffs on goods produced in extremely low cost countries,

then the results may be highly dangerous not only to Canadian manufacturing industries but to Canada as a whole. Trade agreements which consolidate our existing markets for primary products and at the same time increase the total trade between Canada and other countries, without increasing our adverse balance on merchandise account, are to be recommended in the strongest possible terms, but agreements made merely as a gesture of neighborliness and goodwill stand condemned as economic folly of the most dangerous kind. No Canadian government can change the trading habits of world nations and no Canadian government can throw open the Canadian market to low cost producers without serious consequences to this country.

There has been no attempt in the course of this discussion to defend uneconomic manufacturing industries or to defend increases in the prices of goods made in Canada because an unjustifiably high tariff permits such increases. It is recognized that a balanced national economy is essential; that scientific tariffs are essential to protect economic industries and that in certain circumstances special duties are necessary. But these considerations are based on the fact that industrial manufacturing costs must not penalize national development; that such costs must tend to decline rather than increase. The obvious course to be followed by manufacturers whose products are subject to severe import competition—such as iron and steel, electrical equipment, textiles, boots and shoes, building materials, motor cars and the like—is one of reducing production costs by the methods advocated by the writer in these columns in recent months.

Such methods include the grouping of manufacturing units to avoid unnecessary duplication of tasks and operations in areas where taxation and other costs are relatively high; the scrapping of obsolete equipment and the installation of new machinery which will do the required work better and more cheaply; much equipment of this type is on the market; industrial organization which implies continuity and economy in operations; the elimination as far as possible of unprofitable lines of manufacture and concentration on the production of standard products which permit lower costs; a drastic and voluntary reduction in many cases of capital in line with present-day values; the development of research in collaboration with the National Research Council and other similar bodies to improve existing processes and develop new products.

The Dominion Government, in its zeal for the creation of new trade treaties, may facilitate large imports of manufactured goods, but the policy will not be sound if tariffs are forced below reasonable levels or the door is opened to imports of extremely low-cost merchandise. The way of national progress is not in that direction and such action ignores the broad lines of national policy and world developments. Two recommendations stand out from this discussion, one, that total imports of merchandise must not exceed total exports (imports should be permitted in the ratio of about 9 units of imports to 10 units of exports), and two, that high production costs which are incidental to the development of economic manufacturing industries in Canada should be offset by a scientific tariff on imports of manufactures. It may be added in conclusion that so long as there are low-cost producers ready to dump their merchandise on world markets at prices which bear no relation to costs of production in the country of origin, so long will special restrictions be

necessary to control the volume of such goods entering Canada.

IT IS the hope of the writer that this discussion will indicate the position of manufacturing industries in Canada's national economy, particularly those industries which have been described as vulnerable to larger imports. At the moment there is no reason for alarm, but it must be emphasized in the strongest possible terms that industrialists must watch the trend of events, particularly with regard to new trade treaties and the bearing they will have on export and import trades. It is for business men to analyze conditions from the national rather than from that sectional viewpoint. Further, an informed public opinion can exercise some controlling influence upon the powers which have authority to make new trade treaties.

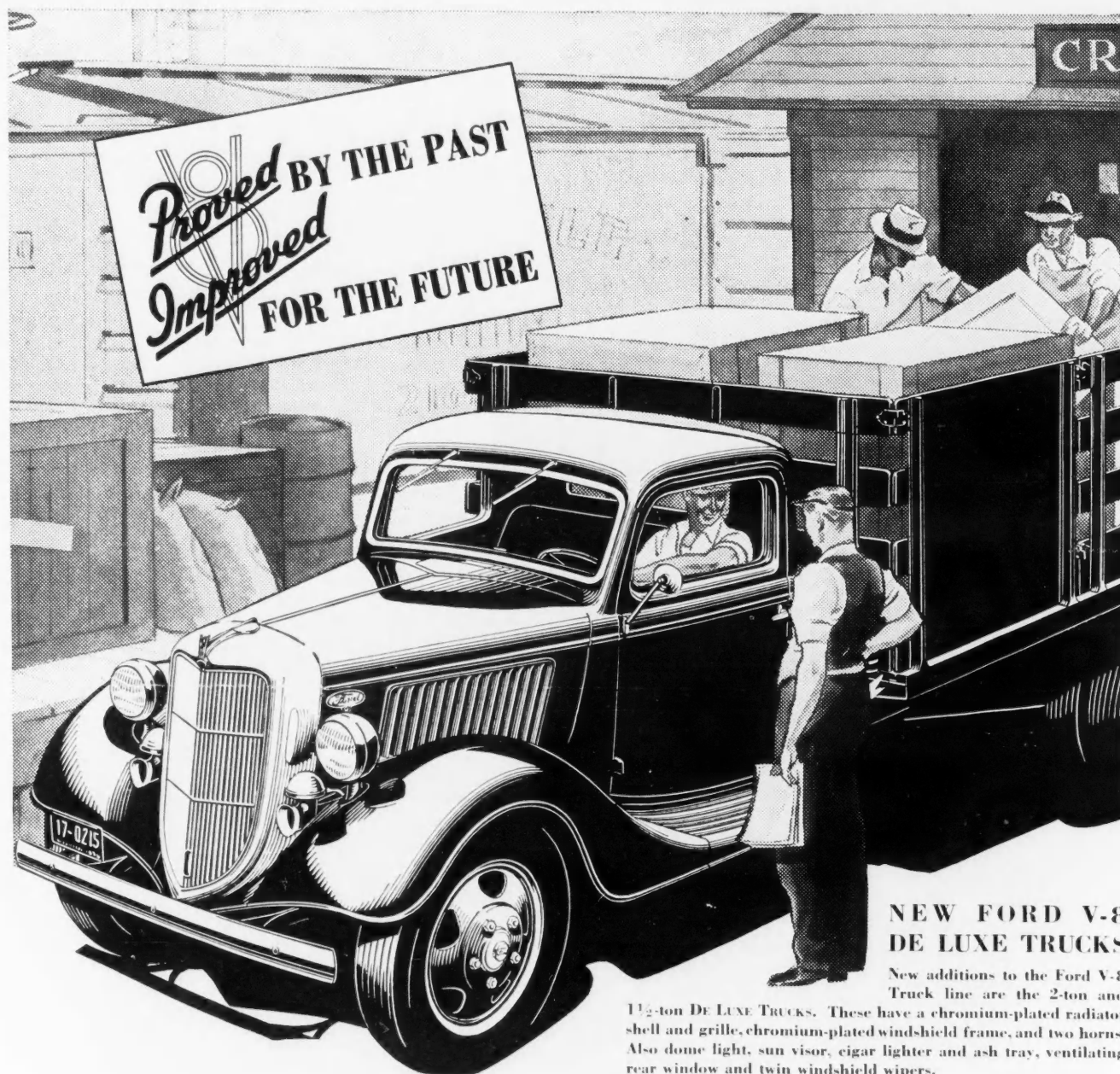
The outlook for agricultural and farm interests in respect of new

trade treaties leaves little to be desired, for unquestionably every effort will be made to increase our exports of primary products and these efforts should be fairly successful. But our producers of primary products must not expect Canada to make too many sacrifices for larger exports, as at present Canada is not in a position to sacrifice anything. From many points of view the period which lies ahead should prove most interesting, but it is not likely that this country will wander far from the principle of a balanced national economy or from the principle of a scientific tariff unless there is a radical change in world economic conditions. One comforting thought emerges from this discussion and it is that the ultimate consumer will benefit from reductions in tariffs and will likewise benefit from reduced production costs, so the outlook is far from unsatisfactory.

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**NEW FORD V-8  
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New additions to the Ford V-8 Truck line are the 2-ton and 1½-ton De Luxe Trucks. These have a chromium-plated radiator shell and grille, chromium-plated windshield frame, and two horns. Also dome light, sun visor, cigar lighter and ash tray, ventilating rear window and twin windshield wipers.

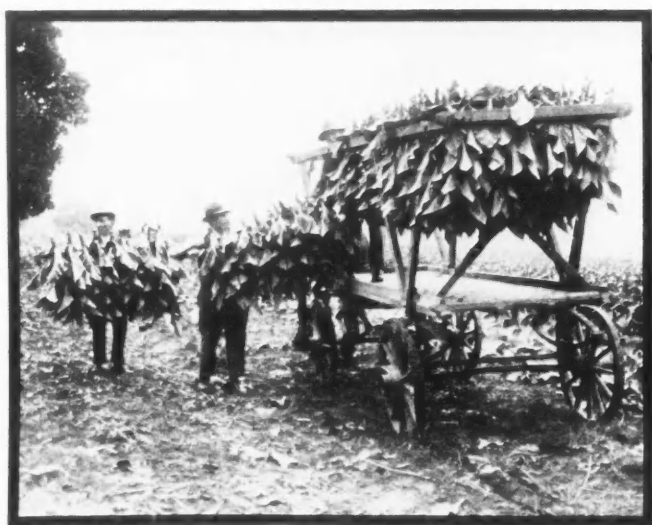
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## THE 1936 2-TON AND 1½-TON FORD V-8 TRUCKS AND COMMERCIAL MODELS



ENGLISH TOBACCO HARVEST. Near the village of Church Crookham, Hampshire, a considerable area of land is planted in tobacco. This year's crop was particularly good. Here is the freshly-cut tobacco on its way to the curing sheds.